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THE COTTON TRADE

LETTER

FROM

THE CHAIRMAN OF THE FEDERAL TRADE COMMISSION

TRANSMITTING

A REPORT OF THE FEDERAL TRADE COMMISSION ON THE COTTON TRADE

IN RESPONSE TO SENATE RESOLUTIONS NO. 262, MARCH 16 (CALENDAR DAY, MARCH 29), 1922, SIXTY-SEVENTH CONGRESS, SECOND SESSION, AND NO. 429, JANUARY 29 (CALENDAR DAY, JANUARY 31), 1923, SIXTY-SEVENTH CONGRESS, FOURTH SESSION

IN TWO PARTS

PART I

APRIL 24 (calendar day, APRIL 28), 1924.—Referred to the Committee on Agriculture and Forestry and ordered to be printed

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

SUBMITTED BY MR. DIAL

IN THE SENATE OF THE UNITED STATES,
May 5, 1924.

Ordered, That the charts accompanying the supplemental report of the Federal Trade Commission on the cotton trade, transmitted to the Senate on April 28, 1924, together with the hearings held by the commission in the matter, be printed in connection with the said report.

Attest:

GEORGE A. SANDERSON,
Secretary.

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LETTER OF TRANSMITTAL

Federal Trade Commission,
Washington, April 28, 1924.

Sir: I have the honor to transmit herewith the report of the Federal Trade Commission on the cotton trade, pursuant to Senate Resolution 262, agreed to March 16, 1922, and Senate Resolution 429, agreed to January 29, 1923.

The report is submitted in manuscript form, with the request that if printed by order of the Senate or Senate committee that such printing will not involve any expense chargeable to the Federal Trade Commission.

The commission is limited for printing purposes to a specific sum especially appropriated by Congress for that purpose and out of that appropriation must be expended the sums necessary to do the legal printing of the commission, which consists of briefs, court records, etc., as well as the sums necessary for the printing of all reports of the commission.

Expenditures of the commission to date for printing are now so near the limit of the funds available that the addition of the cost of printing this report would likely impose upon the commission a considerable hardship because of the necessary restrictions which would have to be placed upon printing, especially legal printing, which the commission is required to do by the rules of the United States Circuit Courts of Appeal, to which courts the commission's cases go on appeal.

To print the report herewith transmitted would leave no margin of safety in the printing fund upon which to operate, and before July 1, with our present work, would force us to incur a deficiency. It is for this reason that the request is made that the printing of the report be without expense to the commission.

By direction of the commission.

Cordially yours,

Huston Thompson,
Chairman.

The President of the United States Senate.
Washington, D. C.

ACKNOWLEDGMENT

In the preparation of this report the commission acknowledges the services of Messrs. G. A. Stephens, Byron P. Parry, G. P. Watkins, W. M. Twombly, and W. H. S. Stevens. Valuable assistance was also given by Messrs. W. P. Sterns, J. S. Biggs, and C. S. Himmelwright.

LETTER OF SUBMITTAL

FEDERAL TRADE COMMISSION,
Washington, April 28, 1924.

TO THE PRESIDENT OF THE SENATE.

SIR: The Federal Trade Commission submits herewith a report on the cotton trade, pursuant to Senate Resolution 262, Sixty-seventh Congress, second session, and Senate Resolution 429, Sixty-seventh Congress, fourth session.

A brief report (preliminary report on the cotton trade) covering most of the questions propounded by the earlier resolution was sent to the Senate in February, 1923. The present report deals chiefly with the operations of the New Orleans and New York Cotton Exchanges and with suggestions of changes to correct certain conditions complained of. The report also describes the marketing of cotton, competitive conditions, the concentration of the business in spot or actual cotton, and the costs and profits of representative cotton merchants and costs of cooperative associations.

The report shows that growers to-day are financed by cotton factors (commission firms) much less extensively than formerly, due in part to better banking facilities and in part to increased ability of growers to finance themselves. Moreover, there are to-day over a dozen growers' cooperative associations, nine of which in 1923 handled in the aggregate about 700,000 bales, composed solely of growers of cotton who bind themselves to deliver all the cotton they produce for five years to their respective organizations.

While complaints that competition was restricted in one way or another were sometimes received, the commission was unable, after searching inquiry, to obtain proof of a single instance of restriction of competition in the buying of cotton. On the whole, competition for the growers' cotton has been greater in recent years than formerly, two important contributing factors being the increase in the number of southern cotton mills and the growth of the cooperative marketing movement.

In selling cotton, also, competition is generally active, but certain letters are presented in the report which strongly indicate that an attempt was made by at least two leading merchants to bring about an agreement or understanding with regard to the selling basis (the number of points on or off futures) in quoting prices of cotton to southern mills. Representatives of these firms denied, however, that there was ever any such agreement or understanding. Any such situation is of serious importance in view of a tendency toward concentration of the spot cotton business in a few hands. In 1919, 1920, and 1921, 24 concerns handled 41, 34, and 60 per cent, respectively, of the crops of those years. Two of these firms reported sales totaling about 1,500,000 bales for each of these three years, or the equivalent of from 10 to nearly 20 per cent of the crop. One trade

criticism of the three largest merchants is to the effect that by virtue of their large volume of future trading they may individually manipulate or affect future prices to the disadvantage of the other traders. Another criticism is that these three merchants have worked together in their future operations, but the commission has obtained no proof that they "pooled" their interests in the future market.

In a period of four years cotton merchants reporting to the commission sold about 10,000,000 bales of cotton at an average price of $133.66 a bale. The average price paid for the cotton was $123.09 per bale, leaving a gross profit to the merchant of about $10.50 per bale on the average, and a net profit of $2.98 per bale before deducting interest paid. This amount yielded a rate of return of 14.9 per cent on the total investment (including borrowings) and of 21.9 per cent after deducting interest on the proprietary investment (excluding borrowings).

A comparison of the operations of three nonstaple cooperative associations with those of the merchants reporting for the year 1922–23 is favorable in several respects to the former. This result is not conclusive, however, except for 1922–23, since the comparison is for one year only.

Suggestions of changes and improvements with reference to the operation of the exchanges have been carefully examined and considered by the commission. The more important of these may be grouped as follows: (1) Revision of the grades deliverable on a future contract; (2) revision of the system of making spot quotations and differences; (3) delivery on New York future contracts at southern points; (4) publication of total volume of future trades and of open future trades.

An examination of various proposals which have been made for the revision of the grades deliverable on a future contract leads to the conclusion that the only one which promises desirable results is the "three contiguous grades" contract, providing that the delivery on each contract shall be composed of not more than three adjacent or contiguous grades, which adjacent grades may be any of those now deliverable. While the commission does not recommend that this form of contract should be employed unless southern warehouse delivery is also adopted, it is believed that such a contract would prove to be a valuable adjunct of delivery in the South (1) by offsetting in part the decreased value of the contract arising from the additional option given to the seller of contracts as to place of delivery; (2) by counteracting in part the depressing effect on future prices of deliveries of varying grades on each contract, which would be emphasized by increasing the number of delivery points; (3) by making it more practicable for the smaller merchant to take delivery of cotton on future contracts, thus reducing the tendency to "run from" delivery notices, i. e., avoid taking cotton on future contracts; and (4) by improving through the increased merchantability of the cotton delivered the price relationship of spots (actual cotton) and futures, and hence the serviceability of the future market for hedging.

Greater accuracy and definiteness in quoting the spot market is desirable for two reasons: (1) True commercial differences for use in the settlement of the future contract make for a more stable relation between spot and future prices, and therefore for a better hedging market; and (2) both the producer and the merchant, as well as

the manufacturer, are entitled to know what are the prevailing prices of cotton as shown by all sales actually made, not only for middling but for all other grades. In order to establish accurate spot quotations and correct differences, therefore, it is recommended: (1) That there be substantial uniformity of procedure in the different spot markets in determining quotations and differences; (2) that all pertinent price information, such as quantity, price, grade, and staple, be reported for every spot sale, and be made the basis of spot quotations and differences by mathematical computations; (3) that this information be verified by a committee of competent classers, preferably not engaged in the trade; and (4) that, in view of the disparity in volume of sales among the several markets, the feasibility of taking a weighted average of their differences instead of a simple average for use in the settlement of the future contract should be considered.

The commission believes that some form of southern delivery on New York contracts should be adopted. The strongest argument for a futures market is that it may furnish a safe hedge for cotton merchants, but this the New York futures market does not always do, its prices being frequently manipulated or forced out of line. It is a truism to say that for some years past the New York futures market has failed to perform satisfactorily its chief function, but it is contended that New York is, nevertheless, a desirable market, because it is the financial and trading center of the world. The commission believes that, if the New York futures market is to be maintained, much of the ground for criticism may be eliminated by the adoption of some system of southern warehouse deliveries on New York contracts. Southern deliveries will do much, it is claimed, to eliminate manipulation and to maintain New York futures prices in their proper relation to spot prices.

The commission recommends the following measures in connection with southern deliveries: (1) That the number of southern delivery points be few and be confined, at least for the present, to Atlantic and Gulf ports; (2) that the delivery and certification of cotton at southern ports be under rigid Government supervision and that deliveries be only from warehouses licensed under the Federal warehouse act; and (3) that the tender of cotton on futures at New York be no longer permitted.

The commission believes that the public is entitled to information as to the volume of trading in cotton futures, and as to the total open interest (net total long or short) by options (months traded in) of all accounts on the books of members. Such figures should be published promptly and regularly, with proper supervision by the Government.

By the commission.

HUSTON THOMPSON, *Chairman.*

THE COTTON TRADE

PART I

SUMMARY

This report is made in response to Senate Resolution No. 262, Sixty-seventh Congress, second session, dated March 16, 1922, and Senate Resolution No. 429, Sixty-seventh Congress, fourth session, dated January 29, 1923. The former resolution directed, among other things, an inquiry into the causes of the low prices of cotton prevailing at the time of the resolution and also into the operation of cotton exchanges and the character of trading thereon. Work in response to this resolution was begun in the summer of 1922.

Just as a report in answer to the first resolution was being completed, the second resolution was received which directed the commission to report the facts relating to "(*a*) alleged corporate violations of the antitrust laws with respect to operations in cotton, including conduct of cotton exchanges and operations upon such exchanges by corporations, partnerships, and individuals; (*b*) the effect, if any, of such operations in future contracts upon the price of the spot cotton sold in interstate or foreign commerce; and (*c*) the relation to such antitrust law violations of the demand for cotton and the supply and methods of marketing it in interstate and foreign commerce."

This later resolution required further work similar to that already done under the earlier resolution. Preparation of a full report under the first resolution was therefore discontinued and a brief report covering the subject matter of this earlier resolution was issued and sent to the Senate in February, 1923.

SCOPE OF THE INQUIRY

The greater part of the present report is concerned chiefly with the operations of the New Orleans and New York Cotton Exchanges, particularly the latter. Numerous changes for improving conditions at these markets, particularly New York, were suggested by the trade and carefully examined by the commission and are presented in detail in this report, together with the conclusions and recommendations of the commission. This portion of the discussion is divided into three divisions corresponding with the principal changes proposed in the present system of future trading in cotton.

Besides the foregoing, the report describes in some detail the marketing of cotton and considers in this connection competitive conditions and the concentration of the spot cotton business in the hands of the few larger cotton merchants.

Agents of the commission visited all of the various spot markets designated by the Secretary of Agriculture as those markets from

which quotations are to be used for the purpose of determining the differences applicable to settlements on New York future contracts. Besides these markets, several of the more important concentration points and a large number of small local markets in the Cotton Belt were visited. Representatives of growers' cooperative associations and spinners were also interviewed. The correspondence files of a number of concerns were examined.

To supplement the information obtained as described above, numerous questionnaires were sent out. In this connection it is desired to state that the cordial and cooperative attitude of the trade is appreciated. The three largest firms, Anderson, Clayton & Co., Harriss, Irby & Vose and George H. McFadden & Bro., however, refused to furnish their cost and profits figures or to allow agents of the commission to take them from their books. A number of the smaller partnerships also failed to furnish cost and profits data.

In view of the wide difference of opinion expressed by various members of the cotton trade in the course of the inquiry, particularly in regard to proposed changes in the system of cotton futures trading, the commission called a conference early in November, 1923, at which the exchanges, producers' associations, merchants, spinners, and others were invited to state their opinions. The conference lasted three days and proved of considerable value.

COUNTRY MARKETING

Cotton growers may either dispose of their cotton in the small country markets or ship it to a larger spot market for sale. If disposed of locally it is usually sold outright to a local merchant; if shipped to a large market it is usually handled by a factor or commission merchant and sold, for a commission, on a to-arrive or spot basis.

Because of the financial assistance received from local storekeepers many small planters market their cotton through these storekeepers as a means of liquidating their indebtedness. It was stated by the United States Department of Agriculture to be generally conceded that a merchant who handled cotton for the purpose of collecting accounts and inducing trade would often handle cotton for the mere cost or even in some cases at a loss. As an offset to this, however, growers frequently were charged a higher price for the supplies they bought.

In addition to the local storekeepers there are numerous other kinds of buyers found at many country markets, to whom the grower may sell his cotton. Of these, the direct or road buyers employed by large cotton merchants generally desire to buy in large quantities and consequently are not always available to many small growers.

Much of the cotton purchased by the local buyers is disposed of by them in the local market to these road buyers of the larger spot firms. These buyers are given limits by their employers; i. e., the number of points on or off which are to be applied to the future price of the prevailing hedge month. Some of the local merchants consign the cotton they have purchased to factors or commission merchants at the larger markets.

The accumulation of cotton at the small or local markets by the various kinds of buyers is generally of a considerable variety as to grade and staple. From the country markets the cotton is moved to concentration points where it is sorted into lots of even running quality. Because this frequently entails additional expense there is some tendency toward sorting the cotton at the point of origin and shipping direct to point of destination under a through bill of lading.

FINANCING PRODUCERS

Cotton factors formerly loaned money to growers much more extensively than they do now. This decline is attributed by the trade to better banking facilities which have made it practicable for the grower to finance himself through other channels than the factor. When factors now finance growers the size of the loan is normally based on the volume of cotton produced by the borrower and his financial responsibility. The security varies. Some growers give only their note, but the great majority must give a mortgage, crop lien, or other security.

According to the Department of Agriculture, the most common forms of security in the 10 principal cotton-producing States are personal notes with one or more indorsements, livestock mortgages, and crop liens. These loans most frequently run from three to nine months and within this period are rather evenly divided between those running from three to six and those running from six to nine months. The department gives the average prevailing rate of interest on these loans to farmers in the spring of 1921 as ranging from 6.23 per cent for North Carolina to 9.84 per cent in Oklahoma.

THE SPOT MARKETS

At each of the larger spot markets are cotton exchanges with rules and by-laws which purport to establish just and equitable principles of trade and to promote generally the best interests of the members. The members of these exchanges handle a large part of the cotton crop, much of which is merchandized at the markets in question. Two of these markets, New Orleans and New York, have future exchanges. New York is the more important future market, although far less important than New Orleans as a spot-cotton market.

The factorage business at most of these spot markets has declined markedly in recent years, cotton now being bought directly in the country to a much larger extent. This decline in factorage business has had some effect on the volume of business at some of the spot markets since some of the cotton bought directly no longer goes to the spot markets. They are the points at which the most important middlemen are found.

The methods of handling cotton, as well as the facilities, at these markets vary somewhat, as does the distribution of sales among the various ways of selling cotton.

The methods of selling cotton at the larger markets may be divided into three general classes: (1) On sample, (2) on type, (3) on description. These are set forth in detail in the report as are also the methods of buying followed by spinners.

COOPERATIVE MARKETING

In recent years the cooperative marketing of cotton has become a very important agency in the distribution of the cotton crop. There are to-day some 12 very important associations of growers, 9 of which in 1923 handled in the aggregate approximately 700,000 bales of cotton.

These associations are nonprofit organizations and usually only growers of cotton may be members. The association binds each member to deliver all cotton produced by him for five years to the association. While each association has its sales organization, they are federated into a central body which is in effect a general sales office. This general office is designed largely for the purpose of coordinating sales and preventing the various separate organizations from competing with one another in selling cotton.

The commission believes that the cooperative marketing of cotton has been successful thus far and if wisely managed is not likely to fail, as some merchants maintain, even in periods of low prices.

COMPETITIVE CONDITIONS

Special attention was given to the study of competitive conditions surrounding the marketing of cotton. Interviews were had with a large number of cotton men, representative of all branches of the trade, and also producers and representatives of cooperative associations.

The correspondence files of a number of cotton merchants were examined, as were also the records and correspondence of several of the cotton exchanges, including those of the two cotton-futures markets, New York and New Orleans. Similar examination was made in the case of a number of cotton trade associations.

It appears that there is competition on the whole in the buying of cotton. While some assertions were made that competition was restricted at some country points by means of price agreement and division of territory, no clear and definite evidence of any such restraints was found. The decrease in the size of the crop in the past two or three years, the increase in the number of southern cotton mills, many of which purchase cotton freely from the growers, and the growth of the cooperative marketing movement are some of the factors which have contributed to the growth and maintenance of competitive buying. It is no doubt true that competition for the growers' cotton has been greater in recent years than it was formerly. Competition between towns in a given territory is generally keen, and on this account growers are not always limited to one local market.

Scattered throughout the entire Cotton Belt, and especially in the more important cotton markets, are to be found hundreds of cotton merchants and shippers who handle cotton for domestic and export consumption. It was the general belief in the trade that competition between these merchants in the sale of cotton was as a whole exceptionally keen and fair, and this was quite generally borne out by the investigation made.

CONCENTRATION OF MERCHANDISING

In 1919, 1920, and 1921, 24 concerns handled 41, 34, and 60 per cent, respectively, of the crops of those years. Two of the firms in this 24-concern group reported sales totaling about 1,500,000 bales for each of these three years, or the equivalent of from 10 to nearly 20 per cent of the United States crop in the years specified.

In view of the considerable concentration in the marketing of spot cotton it was deemed pertinent to determine the attitude of the trade with reference to these conditions. The following summarizes briefly the opinions expressed by a fairly representative cross section of the spot-cotton trade.

Many cotton merchants contend that there is a tendency toward concentration of the spot-cotton business and that this has been especially marked in recent years. Some hold that this concentration is due to the superior efficiency of these large firms. Many merchants believe these large firms are a necessity, because they are ready to buy cotton at all times. Others feel that these concerns are entitled to a large volume of business if they obtain it fairly. Then, too, there are merchants who, acknowledging the importance of these large concerns, hold that the cotton trade is too large to be dominated by any firm and that the present laws are sufficient to prevent any combination that would dominate the trade. Much of the criticism of the size of some of these firms, particularly Anderson, Clayton & Co., Harriss, Irby & Vose, and George H. McFadden & Bro., goes to their operations in the futures market, the contention being that the volume of business done by them influences prices to the detriment of the other traders.

ALLEGED COLLUSION IN FUTURE TRADING

Frequent criticisms, both oral and written, were made to the effect that these three large cotton merchants were working together under some sort of a "gentlemen's agreement" in their futures operations, and that they were thus able, at times, unduly to influence the course of futures prices to their own advantage. Such criticisms were in some instances made by cotton men of high reputation in the trade. The commission did not obtain any definite proof of these practices.

ATTEMPTED AGREEMENT ON SELLING BASIS

During the latter part of June and early part of July, 1922, it appears from correspondence obtained by the commission that an effort to bring about an agreement with regard to selling basis (the number of points on or off futures) to southern mills was made by at least two, and possibly three, of the leading cotton firms.

On June 17, 1922, George H. McFadden & Bro. wrote to Harriss, Irby & Vose, confirming a telephone conversation in regard to new crop basis, giving the latter their basis on Texas cotton f. o. b. Galveston and on upland cotton f. o. b. Savannah.

On June 28, 1922, George McFadden wrote Lamar L. Fleming, of Anderson, Clayton & Fleming:[1]

I understand your firm have sold about 35,000 bales average strict middling, 1 to 1⅛ inch western cotton, January to May shipment, to southern mills at 175 on March, while we are offering 225 on March.

As I told you yesterday, I think the competition in forward business should be limited, for the reason that if the larger firms would substantially agree on the basis for forward shipments that they could sell all the cotton they care to put on their books, and therefore under the circumstances it seems to me sensible to endeavor to secure as high a basis as possible on this forward business. * * *

I have written Mr. Bryant and Mr. Rivers to cooperate with your men in Charlotte and Savannah, as I think by cooperation and discussion we can get better results than would otherwise be possible.

It appears further from the correspondence that upon receipt of this letter, Mr. Fleming telephoned to H. N. Smith,[2] at Charlotte, and communicated to him Mr. McFadden's complaint with regard to the southern selling basis of Anderson, Clayton & Co. The following day, June 29, 1922, Mr. Smith wrote Mr. Fleming, denying that he had made the sales referred to by Mr. Fleming. At the same time Mr. Smith sent a copy of his letter to Mr. Fleming, to W. L. Clayton, of Anderson, Clayton & Co.; and in a letter to Mr. Clayton, dated June 30, 1922, Mr. Smith wrote that C. B. Bryant, Charlotte, representative of George H. McFadden & Bro., had called upon him and had suggested that they stay close together on basis and keep it as high as possible.

Mr. Fleming, on June 30, 1922, also wrote to Mr. Clayton inclosing a file in regard to mill prices in the Carolinas. To this letter, Mr. Clayton replied on July 4, 1922, saying:

As I have several times told McFadden, we are glad at all times to cooperate in the matter of basis, exchange information, etc., but I do not believe it is practicable to have any hard and fast understanding about selling basis, because it destroys that freedom of individual action which is so necessary in the cotton business.

If McFadden and ourselves were the only sellers, it would be a different story.

On the same date Mr. Clayton also wrote Mr. Smith inclosing a copy of the above letter to McFadden. In his letter to Mr. Smith, Mr. Clayton said, in part:

I think we are going to have a pretty stiff basis for at least 60 to 90 days, and if we will all stick to it and demand it, I think we will get it.

In view of the other letters quoted above, the use of the word "all" in the above quotation might mean Anderson, Clayton & Co., and George H. McFadden & Bro.; in other words, both firms should "stick to it." Or it might refer to all sellers of cotton. Mr. Clayton's explanation is that "This 'all' refers to all our selling offices in the South, * * * all of which offices offer cotton for Carolina mills through H. N. Smith, our Charlotte representative."

On July 6, 1922, Mr. McFadden wrote to Harriss, Irby & Vose to the effect that he believed the buying basis in the Carolinas would be high as compared with western cotton "and therefore we are rather inclined to again raise our basis."

Richard T. Harriss, of Harriss, Irby & Vose, replied to the above on July 7, 1922, to the effect that he and his partners "concur in your views as to the possibility of a high basis in the Atlantic States."

[1] Anderson, Clayton & Fleming is a separate firm from Anderson, Clayton & Co. However, all the partners in the former firm are partners in the latter firm, except L. L. Fleming.

[2] Agent of Anderson, Clayton & Co.

In the same letter Mr. Harriss said:

Should we later on begin effecting any sales to southern mills for shipment from the Atlantics, I will get in touch with some of your partners and see how our basis compares with yours.

Upon receipt of Mr. Clayton's letter of July 4, 1922, referred to above, Mr. Fleming sent a copy of it to Mr. McFadden. The latter wrote Mr. Fleming on July 10, 1922, and in referring to Mr. Clayton's letter said, in part:

I entirely agree with Mr. Clayton as regards the basis, as it is impossible to fix any standard basis, as there are too many people in the business to do so, but I believe it is to our mutual interest to confer with you in discussing all questions in which we are mutually concerned.

Mr. McFadden then went on to say he had sent a copy of Mr. Clayton's letter to the Charlotte representative of George H. McFadden & Bro.

On July 11, 1922, Mr. Fleming wrote Mr. McFadden that:

There is no question but that it is good policy for the large concerns to try to work in harmony, especially from the head offices, but where those boys down on the spot are in keen competition, I doubt the advisability of telling them much beyond letting them know we are trying to keep about in line with the basis.

Commenting on the above correspondence, W. L. Clayton said:

We made our own prices absolutely independently, without any reference to McFadden, * * *. We were our own masters as to the making of our basis, and could change it overnight or as often as we pleased, without any reference to what anyone else was doing. * * * There has been no agreement, understanding, or concerted action on this selling basis proposition. I think our letters show that we regard it as entirely impractical. Even if we thought it was perfectly legal it could not result in any good to anybody.

George Stuart Patterson, one of the partners in George H. McFadden & Bro., stated, among other things, in a signed statement regarding the above-mentioned letters, that—

It is absolutely silly for any two firms or any combination of firms to talk about fixing basis—agreeing upon a common basis at which they would sell to anybody. The competition is entirely too severe in the cotton business. If any such agreement were to be made, the only result would be that you would get out of business and the other people outside the agreement would get the business.

Notwithstanding these statements, it would seem that attempts were made to bring about an agreement on selling basis to southern mills.

COSTS AND PROFITS

The commission obtained the financial results of a large number of cotton merchants covering in a period of four years approximately 10,000,000 bales of cotton. Figures were also obtained from six cooperative marketing associations for the year 1922–23 covering something over 500,000 bales.

These figures show that during the four-year period the reporting cotton merchants sold about 10,000,000 bales at \$133.66 per bale, and that they paid for this cotton \$123.09 per bale, leaving them a gross profit of \$10.57. Of this amount \$5.64 was absorbed by general expenses, and future losses cost \$1.95 a bale. The merchants paid on an average 96 cents a bale interest charges so that their total net income was \$2.02 a bale.

The rate of return on average investment of reporting merchants amounted to approximately 25 per cent before including future results

and to about 15 per cent after future operations are included. The rate of return on proprietary investment was 43 per cent without including future operations, and approximately 22 per cent after taking future transactions into account.

A comparison of the results of merchants by size groups for a period of four years combined is more favorable to merchants in the smaller size groups than to those handling 100,000 bales a year and over. Whether it be gross or net profit per bale, operating expense per bale, or rate of return on investment, the results of one or more of the smaller size groups are better than those of reporting merchants handling over 100,000 bales.

The results for the cooperative concerns in comparison with those of the merchants in the year 1922–23 were not unfavorable to the former. The selling price of three nonstaple cooperatives ($132.10 per bale) was somewhat lower than the average of 35 cotton merchants reporting in that year ($134.15), but the gross profit taken by the merchants amounted to slightly over $12, whereas the gross margin of the cooperatives amounted to only $7.12. Out of these gross margins the cooperatives paid a slightly higher expense per bale than did the merchants, the figures being $5.57 for the cooperatives and $5.26 for the merchants. They also paid 54 cents per bale higher interest charges. The merchants, however, lost $5.47 a bale on futures, and their net income amounted to 32 cents a bale. As a result the growers' equity shown by the cooperatives amounted to $124.98 as compared with a price of $122.09 paid by the merchants for their cotton, a difference of about $3 per bale in favor of the cooperatives. Moreover, the cost of the cotton to the merchants reporting does not represent the price paid the grower, since much of this cotton was undoubtedly purchased from local dealers. In consequence the merchant's buying price is higher than that obtained by the producer. These results can not be regarded as conclusive, except for 1922–23. The comparison can be made only for this year, due to the lack of data on the cooperatives.

THE FUTURE CONTRACT AND DELIVERIES

The future contract may be defined as an agreement on the part of the seller to deliver and of the buyer to receive and to pay a certain price for a certain kind and quantity of a commodity at some specified future time under conditions prescribed by an exchange or understood in the trade. In cotton futures these conditions must be in harmony with the United States cotton futures act.

The forms for the contract required by the two principal exchanges are practically alike. The contract specifies middling cotton at a certain price per pound, but provision is made for the delivery of other grades with adjustment in price in accordance with the provisions of the futures act. The seller has the option as to the day of delivery within the stipulated month and also the option as to grades delivered within the range specified by the act.

The general form and content of contract, therefore, is fixed by the United States cotton futures act and rules of the exchanges. The chief purpose of these rules is to establish uniform usages and promote equitable trading among exchange members. It is believed by the commission that in at least one important respect—i. e., in respect to default in delivery on futures contracts—the rules of the two large exchanges, New York and New Orleans, are inadequate, unnecessarily severe, and indeed tend to facilitate squeezes. It is believed that if the rules were more along the lines of those of the grain exchanges considerable amelioration of the effects of corners and manipulation would result. Under rules of the Chicago Board of Trade, for example, a member defaulting on a future contract must pay a price held to be the true commercial value of the actual grain and must also pay as liquidated damages a penalty of from 1 per cent to 10 per cent of this value. Cases of default are handled by a special committee appointed by the president of the exchange, which determines the price to be paid and the amount of the penalty.

Before tendering cotton on a future contract at New York or New Orleans the cotton must be weighed by the exchange and classed and graded by the Federal Government through its boards of cotton examiners, one of which is located at each of these markets.

The future contract being a basis middling contract, settlement for grades other than middling must under the law be made at the prevailing differences on or off the price of the basis grade (middling), according as the grades tendered are above or below middling. The accurate determination of the grade of cotton tendered is of great importance. It is the primary function of the United States boards of cotton examiners to make this determination and to certify either that the cotton is or is not tenderable on future contract. The services of these boards are also used at times in settling disputes as to grades of cotton.

For the years 1918–19 to 1921–22 the volume of trading in cotton futures ranged from 104,000,000 to 124,000,000 bales, or several times the size of the crop in every year. Of this total trading from 67,000,000 to 78,000,000 bales were on the New York Cotton Exchange. As compared with the extent of trading the deliveries were relatively insignificant, the maximum being 648,790 bales in the last year of the period 1919–20 to 1921–22.

DIFFERENCES APPLICABLE ON CONTRACT SETTLEMENTS

The cotton futures contract is a basis-middling contract. It provides for the delivery of a specified quantity of cotton at a specified price for middling, the seller having the privilege of delivering any one or more of certain other grades tenderable under the cotton futures act, at differences determined under provisions of the act. These differences are additions to the middling price for grades above and deductions from the middling price for grades below.

Since the buyer must receive any legally tenderable grades offered him in fulfillment of the contract, the amount of the differences is of great importance to him. This is because the grades which in the light of spot values are most overvalued by the differences will tend to be delivered by the seller. The expectation of the delivery of overvalued grades leads the buyer to pay less for the contract than he otherwise would. Such a discount not only appears in the delivery month but is reflected back into earlier months, and to the extent that it is a fluctuating factor renders the contract unsatisfactory as a hedging facility.

The cotton futures act of 1914, among other things, provided for the establishment of standards in grades of cotton, for a restriction of deliveries on future contracts to specified grades, and for a "basis" future contract, requiring that in settlement of such a contract for grades other than the basic grade commercial differences should be used. When grades other than middling are delivered on the future contract on an exchange located at a bona fide spot market (designated as such by the Secretary of Agriculture), the differences above or below the contract price which the receiver pays for such grades must, under the cotton futures act, be the actual commercial differences established by the sale of spot cotton in the spot market where the future transactions occur. If, however, the future exchange is not so located, the differences used must be the average of the actual commercial differences of not less than five bona fide spot markets designated by the Secretary of Agriculture.

Since New York is not deemed qualified under the act to be designated as a bona fide spot market, the differences required to be used in settlement of its future contract are those found by taking an average of actual commercial differences in the designated spot markets (at present 10 in number), while the differences required for the New Orleans contract are the actual commercial differences prevailing in the New Orleans spot market.

DELIVERY MONTHS DISCOUNTS

The discount of the delivery-month future price under the spot price for the same month covering the period since 1908 has been calculated for both New York and New Orleans. From August, 1908, until August, 1914, the spread is fairly uniform on each market, increasing slightly toward the close of the period. As between the two markets it is generally less on the New Orleans exchange, where it frequently appears as a small premium of the future over the spot. Soon after the beginning of trading in the new contract under the cotton futures act in 1915, there was a slight narrowing of the spread on both exchanges and a somewhat greater regularity than previously on the New York exchange. In the latter part of 1917 the spread, in the form of a discount, increased on both exchanges, continuing wide for the most part until almost the close of 1920, when the spread resumed more nearly its breadth and direction prior to 1918.

The wide and highly fluctuating discount of spot-month futures on both exchanges during the greater part of the calendar years 1918, 1919, and 1920, may be ascribed largely to two conditions: (1) War and after war conditions caused premiums for immediate and prompt deliveries, and the discount of the far months, as compared with the spot price, was accordingly large during this period; (2) overvaluation of grades deliverable on future contract, arising from incorrect differences would appear to be another cause of these discounts.

EVIDENCES OF INCORRECT DIFFERENCES

Evidences of incorrect differences employed on the New York Cotton Exchange in the settlement of the futures contract are found in the wide variations in the differences of the 10 designated spot markets since 1914. The range of the variation for good ordinary

cotton was 530 points at one time in 1918 while this grade was still tenderable on future contracts. On low middling there was a variation between the spot market having the highest difference and that having the lowest, of 555 points on July 1, 1918, and on good middling of 225 points on June 1, 1920. As recently as November 1, 1923, there was a variation on low middling of 100 points and on good middling of 50 points.

Two important reasons for the variations between the quotations of any two spot markets for the same day are, first, that the quotations of at least one of the markets, due to methods used, are incorrect, and second, that market conditions are unlike. The latter reason, however, will not account for a persistent spread in the same direction as between the spot prices for middling in adjacent markets, if the spread considerably exceeds normal handling and transportation charges as between the two markets. The same may be said of the variations between differences where middling prices are practically alike. On the other hand, methods of quoting the markets are so different and types of sale and description of cotton so frequently unlike that spreads in quotations may easily be due, in considerable part, to the methods used in arriving at the quotation.

Only 5 of the 10 designated spot exchanges require their members to report for quotation-making purposes detailed information on all spot transactions, as apparently contemplated by the cotton futures act and the regulations thereunder. Where such information is required, its extent greatly varies. One exchange requires quantity, grade, staple, and price to be reported, and others only some two or three of these items. The use made of reported price information by the quotation committee also varies. Some make it merely a basis for a judgment of the committee as to what the quotation should be, others making it the basis for a computed quotation. There are great differences between the markets in respect to the character of the transactions upon which quotation-making information is required and for which quotations are issued. These differences refer, in part, to size of lot, to even-running or round-lot sales, to character of grade and staple, and to the inclusion of basis middling and to-arrive sales. Even though quotations are based upon actual transactions and accurately reflect the market, quotations made under such dissimilar conditions and for cotton of such dissimilar description can not be as consistently combined into one average for several markets as they could be if the sales were made under identical conditions.

In arriving at the quotation for middling six exchanges establish what they regard as the prevailing basis for the day which they apply to the New York closing future, thus establishing a closing spot quotation. The remaining four exchanges establish quotations for middling from information of flat prices on actual sales, though one of these at times takes into consideration the New York closing future. Of those exchanges requiring quotation-making information from their members, only one classes the cotton (through its quotation committee), the sale price of which contributes to the determination of the quotation. Two require both buyer and seller to report price and grade, a method of verification not satisfactory in respect to determining the grades. Only two exchanges establish the differences from ascertained prices of all grades sold, or, in the absence of

sales, from values established under the regulations prescribed by the Secretary of Agriculture. The usual practice is for the committee, either from the information it casually acquires on prevailing differences, or by special canvas of exchange members from time to time, to continue or revise differences as conditions seem to demand. Only one exchange has a special difference revision committee whose personnel and term of office differ from those of the quotation committee. There is no uniformity of procedure as between the different markets in the making of quotations when no sales of a particular grade or of any grades are made. In many markets differences are continued until challenged and shown to the satisfaction of the committee to be wrong. The revision thus comes about in various ways and with varying degrees of promptness.

In view of the great variation between markets in the volume of sales on any given day, it is a question whether the results of combining the differences for the several exchanges by way of simple averaging is altogether satisfactory. In some markets no sales occur for days at a time. In the crop year of 1922–23 there were 143 business days when one of the ten designated markets made no sales and 211 business days when no sales or sales of less than 100 bales were made. When no sales of any grades are made for long periods it is hardly possible to arrive at an accurate quotation even by the most carefully worked out methods. To give a quotation under such conditions equal weight with one based on a large number of actual sales is open to serious question.

DELIVERABLE GRADES

Both prior and subsequent to the passage of the United States cotton futures act proposals have been made looking to the revision of the grades of cotton deliverable on contract. Most of them may be grouped into the following five classes: (1) Proposals for specific grade contracts; (2) proposals for specific group grade contracts; (3) proposals for decreasing the range of deliverable grades; (4) proposals for increasing the range of deliverable grades; (5) proposals for restricting the number of grades deliverable on any one contract but without restricting the range of deliverable grades.

One basic argument of the advocates of any system of dealing in futures is the reduction or offsetting of the speculative risk, involved in the handling of the actual commodity, by hedging. The future contract, therefore, it is claimed, should afford a reduction in risk to such merchants and spinners as choose to take advantage of it. Satisfactory hedging, so it is contended, implies the maintenance of a relatively stable relationship between spot and future prices. From this point of view the important criterion to be observed in any revision of deliverable grades is the maintenance of such a stable relationship in order that hedgers may not suffer loss from widely fluctuating differences between spots and futures. The regulations surrounding the trading in futures should give protection to the legitimate use of the hedge, but they should be so framed that in accomplishing this result they do not afford a medium for exacting a return not implied by the true use of the contract for hedging.

SPECIFIC GRADE CONTRACTS

It is claimed by hedgers that the adoption of a form of future contract calling for the delivery of a specific grade on each contract would, if the future system survived, divide the volume of trading among a variety of contracts and would render price fluctuations more extreme, while the small supply of certain grades would greatly increase the risk of manipulation and danger of severe losses to sellers of such contracts.

GROUP GRADE CONTRACTS

The group grade contract arranges the present deliverable grades in groups and would require that traders specify one of these groups, or if not specified a certain group is designated. If the grade in each group to be used as the basis of settlement is not specified by the contracting party, one of the grades in the group is designated as applying. In addition the plan would require that at least one-third of the deliveries on the contract be of basis grade and the remainder of any of the four grades of the group in which the trade is made.

While a few spinners are inclined to view this form of contract with considerable favor the great majority are opposed to it, as are also practically all of the merchants. The weight of opinion of both merchants and spinners is that this form of contract would not appreciably increase the quantity of cotton taken by mills on future contracts, and that there is danger that any such contract would render the future market less satisfactory for hedging.

There seems to be no good reason for doubting that such a contract would increase the price of the future, but it does not follow that it would increase the price of spot cotton to the producer, as is some times claimed. If, according to the current argument of the trade, the ability to hedge reduces risk and enables the merchant to pay a higher price to the producer the contract under discussion would tend to decrease rather than increase the price paid the grower through rendering hedging facilities less economical and satisfactory.

CHANGING THE RANGE OF DELIVERABLE GRADES

It is contended that decreasing the range of grades at present deliverable on contract would tend to raise the price of the contract in relation to spot cotton and thus to bring futures more closely in line with spots. The objection urged to such a plan is the increased danger of squeezes, because sellers might not be able to get the specified grades they agreed to sell.

As regards hedging, the result to be desired chiefly is a more stable relationship of spots and futures rather than any increase in the value of the contract, unless the latter would by chance result in the former. Owing to the possibility of squeezes just referred to, this result is not to be expected from a decrease in deliverable grades.

The proposal of certain members of the cotton trade to increase the number of grades now deliverable on contract can be traced in part to a desire to stop squeezes. If a larger number of grades, particularly the lower ones, are deliverable, holders of long contracts, so it is claimed, are not so likely to squeeze the market on account

of the possibility of being obliged to take delivery of large quantities of this lower grade cotton. While from this point of view such a revision would tend to reduce the possibility of bull manipulation, it is contended that there is grave danger that it would impair hedging facilities by affecting unfavorably the spot-future spread. The lower grades not now deliverable are largely specialties which can not be readily handled by all concerns, and the possibility of receiving such cotton on contract would, it is argued, diminish greatly the desirability of such a contract from the standpoint of the buyer.

CONTIGUOUS GRADE CONTRACTS

A contiguous grade contract refers to one on which the delivery may consist of not more than three contiguous or adjacent grades, the adjacent grades, however, being any three of the range of grades now deliverable.

It is contended that such a contract would prevent the delivery of miscellaneous bales of cotton known in the trade as "overs." It is further contended that it would be particularly disadvantageous to the small merchant if he were prevented from delivering these "overs" on contract, as he may do at present.

This inability to deliver on a futures contract a miscellaneous lot of "overs" can not be regarded as a serious objection to a contiguous grade contract, if the primary function of the futures market is to afford a proper hedging facility. As regards the second objection, namely, that it would be disadvantageous to the small merchant, it should be noted that the small merchant tenders very little cotton on contract (and the growers none), and that any disadvantage he might have, through inability to deliver his overs on a contiguous grade contract, would more than likely be offset by the fact that he would receive a more merchantable lot of cotton when taking delivery on such a contract. A reduction in the size of the contract delivery from 100 to say 50 bales might, however, prove of some advantage to the small dealer under such a contract.

Another objection made to this kind of contract is the expense involved in the classing out of cotton into such contiguous grade lots, but the dealer customarily classes out his cotton into such lots for sale in the spot market, so that this is not a serious objection.

It may be objected also that, with a contiguous grade contract, the possibilities of corners and squeezes are increased, but with southern delivery on New York contracts the tendency to squeezes would be greatly lessened, if not eliminated, and this contiguous grade provision would in some measure counterbalance the new option of the seller as to place of delivery.

The chief argument in favor of the contiguous grade contract is the increased merchantability of the delivery. At the present time each contract lot may be composed of several different grades which can not be resold to the best advantage as spot cotton on account of variety. To the buyer with large stocks this may not be important since he can easily re-sort into contiguous lots and resell in the spot market. With the smaller dealer, however, it is otherwise. The relatively greater merchantability of the contiguous grade delivery would tend, as previously indicated, to enable smaller dealers to take up cotton on contract and resell it in the spot market to advantage.

This might have some effect in introducing an added element of competition into the cotton business. The contiguous grade contract may be advocated as a means of improving the hedging facilities of the cotton futures market by increasing the merchantability of the delivery. It is probably true that such a contract would, taken alone, render the future market somewhat more susceptible to squeezes. For this reason, therefore, it is doubtful whether any such change should be made except as the accompaniment of southern warehouse deliveries, as already stated. It may be argued that southern delivery is impracticable without such a contiguous grade contract on account of the disadvantage to the small seller, of being compelled to receive mixed and ill assorted lots of cotton at a variety of delivery points. Under southern delivery the ability of the larger dealers to manipulate the futures market by exploiting deliveries should be lessened, if a more merchantable delivery consisting of three contiguous grades is employed than if the present contract is continued.

SOUTHERN DELIVERIES ON NEW YORK CONTRACTS

The cotton trade has for many years considered the possibilities of deliveries on New York future contracts at certain points in the South, commonly called "southern warehouse deliveries." In the early summer of 1923 a committee was appointed by the New York Cotton Exchange to ascertain some means of overcoming the faults of the New York cotton market, concerning which the exchange and its members had received so much complaint from merchants and spinners. The complaints were to the effect that the New York cotton futures market was frequently manipulated and did not, in consequence, furnish a satisfactory hedge. This committee decided to study the possibilities of southern warehouse deliveries first as it was believed this proposal had more advantages than any other scheme.

The commission found that the sentiment of the cotton trade as a whole is in favor of southern deliveries, but it should be noted that this feeling is by no means unanimous. There is a strong belief in the trade that a similar system should be applied to New Orleans. This report, however, is more particularly concerned with its application to New York. It is quite generally held by the trade that the manipulation of New York futures, usually manifested by a squeeze of the near position (or near option) will be eliminated, or largely so, by adoption of southern warehouse deliveries on New York contracts. These squeezes affect price relationships and consequently numerous traders. Some favor southern deliveries because they believe the plan will restore New York as a spot cotton market, but this view is not general; in fact, many believe it will result in a lessening of the spot cotton business at New York. Many contend that this is desirable because of the heavy expense of handling cotton at New York. It has been stated that cotton sent to New York to be put on contract when exported costs about $4 per bale more than cotton exported directly from southern ports.

The tentative plan of the committee of the New York Cotton Exchange studying the subject of southern deliveries contains, among the more important points, the following: The committee proposes

to limit the delivery of cotton on New York contracts to five southern seaports, deliveries at these ports to be at a differential under New York approximating the handling costs at southern ports plus freight to New York. Under the plan all papers and documents in connection with deliveries would be handled at New York and the inspection and certification would be made by representatives of the United States Department of Agriculture. The committee decided tentatively that no change should be made as to the grades deliverable on contract. There was a strong feeling on the part of some members of the committee, however, that the contract should provide for a three contiguous grade delivery as an offset to the increase in option given the seller by the choice of points at which he may make delivery, and, furthermore, because it was thought that such a contract would furnish better protection to the small merchant.

There are, of course, many arguments for and against southern deliveries. The one on which most emphasis is placed by opponents of the plan is that it will result in bear manipulation, because the delivery points would be in the South, where large quantities of cotton are available. Supporters of the plan contend that if anyone attempted to bear the market there would be plenty of buyers, including small merchants who do not now take delivery, who would buy contracts and take up the cotton; in fact, just as is done now whenever merchants believe future prices to be low as compared with spots.

It is stated by some opponents of the plan that it will result in lower prices being paid to growers, because the near positions would be at a discount under the far months and prices paid to growers are based upon the near months. This is not admitted by supporters of the plan who hold that the near months would not be depressed thereby and that the grower would not be paid lower prices, because there is ample competition of buyers.

The multiplicity of delivery points, it is claimed, will prevent arrangements in advance for freight space since the receiver of cotton on the future contracts will not know where the cotton is to be delivered. This appears to be an admitted objection, but not of sufficient importance for abandoning the plan. The question of the differences to be used is also of importance. Opponents of the proposal hold that it will be difficult to work out a system that will be fair. The commission believes the matter of differences under any system is of great importance and that this question, therefore, should be very carefully considered in connection with southern deliveries.

It is believed by some in the trade that the plan will give the larger merchants a larger advantage over the smaller firms than they now enjoy; and that the larger firms will be able to take advantage of all the alleged objections to the plan, whereas the smaller firms will be unable to do so, and will consequently suffer. This is denied not only by the larger firms favoring the proposal but by many smaller firms as well.

Some of the other arguments against southern deliveries, which are contradicted by those favoring the plan, are the difficulty of financing cotton received on contract at the southern delivery points; the fear of some members of the New Orleans Cotton Exchange of injury to that market; the fear that it will result in discouraging speculation; the fear that it will result in legislation harmful to the cotton trade.

ABOLITION OF NEW YORK DELIVERIES

It is held by some cotton merchants that under a system of southern deliveries on New York contracts, deliveries at New York should be prohibited for the following reasons: If deliveries are permitted at New York it will probably have a depressing effect upon future prices, because New York is an undesirable place to receive cotton and some trader or traders would make deliveries at that point solely as a means of depressing the market. Furthermore, it is feared that cotton from the New England mill district would be tendered at New York at times of poor demand and this would have a depressing effect upon the future price not justified by the general demand for spot cotton. To prohibit deliveries at New York would injure that market according to some members of the New York Cotton Exchange and also would have an immediately unfavorable effect upon the business of some cotton firms. It is believed, however, by many others who favor southern deliveries that the plan for southern delivery would in any case largely eliminate deliveries at New York and this would also affect adversely the business of such firms.

SOUTHERN DELIVERY IN THE LIGHT OF STATISTICS

Certain phases of the problem of southern delivery can be dealt with to advantage by statistics, especially by a study of prices. The test of the presence of a squeeze is the degree of artificiality in the price for the time being. The tendency of the futures to show discounts is another statistical problem having an important bearing on the question of southern deliveries. The tendency to discounts is evident not only in the comparative prices of spots and futures but also in the frequency with which the far options are under the near options when certain general economic causes might be expected to bring about an opposite relation.

Both squeezes and discounts are more frequent or more strongly manifested in New York cotton futures than in New Orleans cotton futures. Both these conditions affect unfavorably the hedging use of futures. Although a cotton merchant may sometimes have occasion to make use of the long side of the market for hedging purposes, in general the hedges of cotton merchants are short hedges. It is the traders on the short side of the market who suffer in a squeeze. But a merchant owning cotton protected by a short hedge would be little affected by a squeeze if he could deliver the cotton on the hedge. The possibility of doing this is not facilitated by the location of the New York market nor by the quantity of spot cotton handled there. The short hedger is also unfavorably affected by discounts on the futures, because the spots and futures tend to come together in the delivery month and the narrowing of the discount inflicts loss on him. If the short hedger puts his hedges in the fars when at a discount under the nears in order to avoid squeezes, he is exposing himself to a greater loss.

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Certain figures compiled for the future trades of three large merchants show how they meet the rather special conditions prevailing in the cotton futures markets. Although they are most of the time, during the three years for which the data are available, on the short side of the futures market, they are in general on the long side of the near options that mature in the latter part of the cotton crop year. In other words, they appear to do just what it is said in the cotton trade that they have been doing; that is, they shift from the short side of an option to the long side as the option approaches maturity, especially in the case of January, March, and May options, and thus, instead of being injured by the tendency of the nears to go to a premium over the fars, take a profit from that situation. In so doing they not only, by their acts, give evidence of the abnormal condition of cotton futures, but tend to increase this abnormality through their bidding up, and even definitely squeezing, the nears. Even though their squeezing of the nears is not directly for the purpose of obtaining profit from the shorts, but instead is for the alleged purpose of forcing cotton to New York to have it on hand to protect their short hedges in later options, nevertheless, the effect upon the workings of the futures market is decidedly bad, and just as bad in its nature as if the purpose were purely manipulative.

Another factor in the situation in the New York futures market is the effect of the way in which the buyers' call contract is used by spinners in their purchases of cotton. By reason of their habits in this connection the spinners frequently pay prices for their cotton based upon the price of a strong or even a squeezed future. The skillful merchant does not suffer from this situation, but, on the contrary, may gain if he has the cotton supplied under the buyers' call contract hedged, not in the near and strong option, which is so commonly used by the spinner in pricing under the buyers' call contract, but in a later and considerably weaker option.

It is an obvious conclusion from the foregoing that the situation in the New York market is bad for the cotton trade and bad for the spinners. Any measures which would tend to remove facilities for squeezing and would reduce the tendency to discounts would greatly help the situation. It is not to be inferred, however, that the discounts are merely a symptom of bad conditions, since they seem to be more likely to accompany short crops and high prices than large crops and low prices. Nor is it claimed that discounts as such are necessarily undesirable, since trade conditions may justify them in special cases.

In relation to the question of southern delivery it is particularly significant that New Orleans makes a better showing than New York both as regards squeezes and discounts. While the showing is not much better, the fact that there is no greater difference may be due to the large volume of straddling between the two markets and the strong influence which New York has over New Orleans futures prices. The better showing of New Orleans may be due to the fact that deliveries at New Orleans are made in the South and in a spot market. If so, the adoption of southern deliveries on New York contracts or the provision, in other words, for deliveries on such contracts at spot markets in the South would probably tend to improve the workings of the New York futures market to a greater degree than that indicated by the present difference between the two markets. The really serious objection to southern deliveries on New York contracts, that it would increase the seller's option on the future contract, appears to be more than counterbalanced by the advantages of the plan, and the depressing effect of this feature upon future prices can largely be counteracted in ways previously indicated.

CONCLUSIONS AND RECOMMENDATIONS

An examination of various proposals which have been made for the revision of the grades deliverable on contract leads the commission to the conclusion that the only one which promises desirable results is the three contiguous grade contract, providing that the delivery on each contract shall be composed of not more than three adjacent or contiguous grades, which adjacent grades may be any of those now deliverable. The commission does not recommend that this form of contract should be employed unless southern warehouse delivery is also adopted. Otherwise, any change in grades deliverable on contract is believed to be of dubious value. The commission believes that the contiguous grade contract would prove to be a valuable adjunct of southern deliveries: (1) by offsetting in part the decreased value of the contract arising from the additional option given to the seller of contracts as to place of delivery; (2) by counteracting in part the depressing effect on future prices, of deliveries of varying grades on each contract, which tends to be emphasized by the number of delivery points; (3) by making it more practicable for the smaller merchant to take delivery of cotton on future contracts, thus reducing the tendency to run from delivery notices; and (4) by improving, through the increased merchantability of the delivery, the relationship of spots and futures and hence the serviceability of the future market for hedging.

Accuracy and definiteness in quoting the spot market is desirable for two reasons: (1) True commercial differences for use in the settlement of the future contract make for a more stable relation between spot and future prices and therefore for a better hedging market; and (2) both the producer and the merchant, as well as the manufacturer, are entitled to know what the prevailing price of cotton is, as shown by actual sales, so far as these have been made, not only for middling but for all other grades.

To establish accurate spot quotations and correct differences, therefore, it is recommended: (1) That there be substantial uniformity of procedure in determining quotations and differences; (2) that all pertinent price information, such as quantity, price, grade, and staple, be reported for every spot sale and be made the basis of spot quotations and differences by mathematical computations; (3) that this information be verified by a committee of competent classers, preferably not engaged in the trade; and (4) that, in view of the disparity in volume of sales among the several markets, the feasibility of taking a weighted average of their differences instead of a simple average, for use in the settlement of the future contract, should be considered.

The commission believes that some form of southern delivery on New York contracts should be adopted and recommends that Congress enact legislation to that end. There are several important reasons for this conclusion.

The strongest claim for a futures market is that it furnishes a safe hedge for cotton merchants. This the New York futures market does not always do. In fact, it is frequently manipulated, its prices being forced out of line. It is a truism to say that for some years past the New York futures market has failed to perform satisfactorily its chief function.

There are valid objections to abolishing the New York futures market. New York has an important advantage over any other city in the United States; it is the financial and trading center of the world. It is stated by some cotton merchants that New Orleans has a better contract than New York in that delivery takes place at a large spot market, but the volume of trading in futures at New York is much greater than that at New Orleans.

The commission believes the better features of the New York futures market can be maintained and much of the ground for criticism eliminated by the adoption of some system of southern warehouse deliveries on New York contracts. Southern deliveries will do much to eliminate manipulation and to maintain New York future prices in their proper relation to spot prices.

The commission recommends in connection with southern deliveries: (1) That the number of southern delivery points selected for New York deliveries be few and that at least for the present they be only Atlantic and Gulf ports; (2) that the delivery, inspection, and certification of cotton at southern ports shall be under rigid Government supervision and that deliveries shall be only from warehouses licensed under the Federal warehouse act; (3) that the tender of cotton on futures at New York be no longer permitted.

The commission believes that the public is entitled to prompt information as to the volume of trading in cotton futures and as to the total open interest by options. Such figures should be published regularly. The open trades should be those open on the books of members and not merely those open at the clearing house.

The commission recommends that consideration be given to a reduction in the size of the contract delivery (100 bales). The value of the present contract, with cotton at 20 to 30 cents, seems entirely out of proportion with the value of the deliveries on futures contracts for wheat, corn, and oats. A reduction in the size of the delivery would render the contract more merchantable and at the same time would permit closer hedging. From the standpoint of ease of delivery, as well as that of marketing generally, it is believed that it might be desirable that the contract should provide for a delivery approximating minimum carload requirements.

The commission believes that a prohibitive tax on cotton puts and calls like that now in force for grain puts and calls should be enacted, thus contributing to the elimination of such trading, which is now prohibited by the rules of both of the cotton exchanges.

Chapter I

ORIGIN AND SCOPE OF THE INQUIRY

Section 1. Origin of inquiry.

This report is made in response to Senate Resolution No. 262, Sixty-seventh Congress, second session, dated March 16, 1922, and Senate Resolution No. 429, Sixty-seventh Congress, fourth session, dated January 29, 1923. The former resolution directed an inquiry into the causes of the low prices of cotton in the United States prevailing at the time of the passage of the resolution. This resolution also directed inquiry into the operation of cotton exchanges and the character of the trading conducted thereon, particularly in reference to its fairness, justice, and legality. It also directed that the commission ascertain certain statistical facts, including the quantities of linters and of untenderable and unspinnable cotton, the size of the cotton crop and the number of future contracts sold on the exchanges, together with the quantities delivered thereon. In response to this resolution work was begun in the summer of 1922, information being procured both by schedule and interviews.

After the field work had been closed, but before the completion of the full report, the commission received Senate Resolution No. 429, above referred to, directing it to report the facts relating to "(*a*) alleged corporate violation of the antitrust laws with respect to operations in cotton, including conduct of cotton exchanges and operations upon such exchanges by corporations, partnerships, and individuals; (*b*) the effect, if any, of such operations in future contracts upon the price of spot cotton sold in interstate or foreign commerce; (*c*) the relation to such antitrust law violations of the demand for cotton and the supply and methods of marketing it in interstate and foreign commerce."

This later resolution required further work along a line similar to that already done under the earlier resolution, particularly with reference to cotton exchanges. It was therefore decided that the most economical course of procedure would be to discontinue the preparation of a full report under the first resolution until further data had been obtained and to issue immediately a brief report covering the subject matter of the earlier resolution. Accordingly there was sent to the Senate in February, 1923, the preliminary report of the Federal Trade Commission on the cotton trade, which briefly replied to the Senate resolution of March, 1922, except with reference to the operations of cotton exchanges which the commission was also required specifically to investigate under the resolution of January 29, 1923.

Section 2. Scope of the report.

While some of the subjects discussed in the preliminary report are also treated in the present one, the greater part of this report is concerned chiefly with the operations of the New Orleans and New York

Cotton Exchanges, particularly the latter. Numerous complaints were made by various members of the trade, including spinners, with reference to the operation of the exchanges, especially New York, and many suggestions for changes and improvements were offered in answer to inquiries as to how the conditions complained of could be remedied. Suggested changes were carefully examined and considered and are presented in detail in the report, together with the conclusions and recommendations of the commission thereon. This portion of the discussion may be divided into three divisions corresponding with the principal changes proposed in the present system of future trading in cotton, as follows: (1) Revision of the system of making spot quotations and differences; (2) revision of the grades deliverable on contract; and (3) delivery on New York future contracts at southern points.

Certain other minor topics connected with the subject of cotton future trading are also discussed, including the size of the present future contract delivery, the default rule of the cotton exchanges and other matters.

Besides the foregoing discussion the report describes in some detail the marketing of cotton and considers in this connection competitive conditions and the concentration of the spot business in the hands of the larger cotton merchants. One chapter has been devoted to the presentation of the costs, profits, and rates of return on investment of a large number of representative cotton merchants and cooperative associations, together with some analysis of these results.

No comprehensive study of the effect of future contract operations upon the prices of spot cotton was made, although various particular effects or relationships are discussed in this report. A comprehensive study would have involved an elaborate and expensive inquiry into spot and future prices which would have greatly delayed the report.

Section 3. Methods of prosecuting the inquiry.

In obtaining the data on which the report is based agents of the commission visited all of the various spot markets designated by the Secretary of Agriculture as those markets whose quotations are to be used under the cotton futures act for the purpose of determining the commercial differences applicable to delivery on New York future contracts. Besides these markets agents were also sent to several other of the more important concentration points, while several others covered a large number of carefully selected local markets in the most important States in the Cotton Belt, observing the buying of the producers' cotton and making inquiry into the operation of the producers' cooperative associations. Agents of the commission also interviewed a large number of the most important cotton spinning interests both North and South.

A number of agents were assigned from time to time to the future markets at both New York and New Orleans and spent many weeks in the study of the operations and methods of those exchanges. In connection with this field work the correspondence files of numerous concerns were carefully examined.

Considerable statistical and other information was obtained by questionnaires sent to all the principal cotton merchants and schedules were used for the purpose of obtaining the volume of sales and the costs, profits, and rates of return on investment. Information was

also obtained by schedule from both spot and future houses as to the volume of their borrowings. Certain other data were also secured from cotton spinners through a questionnaire and the various designated spot markets returned extensive and detailed schedules regarding the price quotations and differences and the methods employed in their determination and computation.

In this connection the commission takes pleasure in expressing its appreciation of the generally cordial and cooperative attitude of the cotton trade toward the inquiry. Nearly all the future houses, as well as the spot dealers and factors, are either individual or partnership organizations, yet in most instances the information requested was supplied without objection and but few refusals were encountered. One of the largest of the spot houses, Anderson, Clayton & Co., gave complete access to their files to the members of the staff and these files were thoroughly examined. No such complete examination, however, was permitted by two other of the very large spot merchants, Harriss, Irby & Vose and George H. McFadden & Bro. All three of these partnerships, however, furnished the commission with information on their volume of spot sales and other data, but refused to furnish the information on costs, profits, and investment, or allow the commission to take off such data from their books.

Many of the statements and opinions of cotton merchants and others which are quoted or referred to in this report are not identified because they describe individual methods or operations or the practices of individual competitors; in many other instances the statements represent the consensus of trade opinion.

In view of the wide differences of opinion as expressed by various members of the cotton trade in the course of the inquiry, particularly in regard to proposed changes in the system of cotton-future trading, the commission called a conference early in November, 1923, at which the exchanges, producers' associations, merchants, spinners, and others were invited to be present and express their opinions. The conference lasted three days and proved of considerable value.[1]

[1] Hearings before the Federal Trade Commission on the Cotton Trade, Nov. 6-8, 1923 (Pt. II of this Report).

CHAPTER II

THE MARKETING AND PHYSICAL HANDLING OF COTTON

Under Senate Resolution 429 the commission was required to inquire into the methods of marketing cotton with respect to anti-trust law violations. This chapter presents an outline of the methods of handling and marketing cotton, and the following chapter a discussion of the competitive conditions in such marketing.

Section 1. Sale of cotton locally.

The cotton bale.—Three general types of bales are used for packing cotton at the gin—the flat bale, the round bale, and the gin-compressed bale.

The flat bale is a loosely packed bale of about 33 by 48 by 54 inches in dimensions and weighs approximately 500 pounds, with an average density of about 11 pounds per cubic foot. Hardly any bale, however, will be found to be of exactly this weight. Some will run a little over and some a little under, and in certain parts of the belt bales customarily run considerably over this weight, while in other sections considerably less. It is bound with steel bands called cotton ties.

The round bale is a cylindrical bale approximately 35 inches long and from 20 to 22 inches in diameter. It has a density of from 32 to 37 pounds per cubic foot, weighs about 250 pounds, and is completely covered with close-mesh bagging. No bands are used on it.

The gin-compressed bale, which is sufficiently compact not to need further compression after leaving the gin, is about 20 by 25 by 52 inches in dimension and is compressed to a density of 30 pounds or over per cubic foot. It is bound in much the same way as the flat bale, but is more nearly covered with bagging. Neither type, the round bale nor the gin-compressed bale, is in general use, and the flat bale is the typical gin bale.[1] In the case of export cotton it is necessary in order to save freight charges to compress flat bales to either "standard" or "high density." The standard bale is 27 by 27 by 54 inches in dimension. The dimension is prescribed by all steamship lines, and the bale is compressed to a density of 22 to 24 pounds per cubic foot. The high-density bale is about 20 by 20 by 58 inches in dimension and is compressed to a density of from 32 to 38 pounds, or in some cases even to 50 pounds, per cubic foot.

The local storekeeper.—Cotton farmers and planters may either dispose of their cotton locally or ship it to one of the larger spot markets for sale.

If the cotton is disposed of locally, it is usually sold outright to a local storekeeper, local interior buyer, or direct buyer[2] for one

[1] Much objection has been raised to the round bale, both by the carriers and the spinners. It is also claimed that the cost of installing and operating presses at cotton gins of sufficient power to compress cotton into either standard or high-density bales renders gin compression uneconomical for most ginners. Both contentions are emphatically denied by many.

[2] The term "local interior buyer" refers to local people buying cotton either on their own account or for others. The term "direct buyers" refers to the "road" or traveling buyers of the larger spot merchants.

of the larger shippers; if shipped to the spot market before sale by the producer it is usually handled on a commission basis by a factor or commission house and sold either on a to-arrive or spot basis. The small planter or farmer is likely to sell to either the local storekeeper or interior buyer. The larger planters, on the other hand, seldom sell to either of these classes of purchasers, but more usually dispose of their cotton to the direct buyers employed by the larger spot merchants or sell on a commission basis at the spot markets. A considerable proportion of the cotton crop, however, is bought by local storekeepers. This situation is in part the result of credit conditions which frequently render the small planter and tenant farmer more or less dependent upon local general merchants for financial assistance. A large proportion of the small planters and farmers of the South are unable to finance themselves through the growing season. They are compelled to borrow, and frequently this borrowing takes the form of an open or charge account with the local storekeeper, whereby the latter supplies the planter's wants during the growing season. Tenant farmers are frequently thus carried for long periods by the local store. As a means of liquidating these accounts and also in order to induce custom the local storekeeper enters the business of purchasing cotton, receiving it in liquidation of the account and crediting the debtor grower with the price paid. Thus the storekeeper becomes the first middleman for a considerable proportion of the cotton crop.

The local storekeeper may also buy cotton for cash, either from parties who owe him money or from others, as a possible source of profit. An investigation made by the Department of Agriculture in North Carolina some years ago indicated an apparent advantage of about 15 points, or 75 cents a bale, for sales credited to the owner's account by a merchant over sales for cash. The department reported that it was generally conceded that a merchant who did not depend upon the handling of cotton for a livelihood, but who employed it for the purpose of collecting accounts and inducing trade, would often handle cotton for the mere cost or even in some cases at a loss. However, the local prices paid indicated that the financial condition of the seller entered into sales on account, the highest prices being paid to those having no security except the cotton. Such parties frequently were charged a higher price for the supplies they bought, so that the higher prices paid for the cotton were largely offset by this fact.[3]

In a more recent study of cotton financing made by the Federal Reserve-Board it is stated that "in general the supply store charges higher prices for supplies for which payment is not received until after the cotton is ginned and sold than they do for supplies for which cash is paid or for which payment is made within 30 days. While in nearly all cases the credit price is from 10 to 25 per cent higher than the cash price, the supply stores reporting from different sections show variations as to these differences."[4]

Interior cotton buyers.—The term "interior cotton buyer" has been used to designate local people who engage in purchasing cotton on their own account or for others in competition with other buyers.

[3] McConnell and Camp, U. S. Department of Agriculture Bulletin No. 476, p. 9.

[4] Carson: Financing the Production and Distribution of Cotton; reprint from Federal Reserve Bulletin, p. 21.

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[4] Carson: Financing the Production and Distribution of Cotton; reprint from Federal Reserve Bulletin, p. 21.

As a rule they operate on a small capital and undertake to make a profit by buying the farmer's crop in competition with other buyers and selling to larger dealers or through factors. In some cases these buyers are termed scalpers. In Texas they are known as f. o. b. buyers from the fact that they act as concentrating agents, buying at various local points in lots of from one to ten bales and selling f. o. b. compress points in lots of comparatively uniform quality.

The interior buyers keep close watch of the trade situation in cotton and the character and condition of the cotton as it is being picked. With this information as a basis they make their offering prices for the cotton as it runs. Often they buy directly from the gins and in some instances the ginners themselves are cotton buyers.

Neither the local storekeeper nor interior buyer purchases much cotton from the large planters. These producers, as a rule, obtain their funds from banks, factors and in some cases, perhaps, from cotton merchants. There is not, therefore, in their case the motive for selling to local storekeepers that frequently exists in the case of the small farmers or planters. So far as the local interior buyer is concerned, the larger planters often have cotton in such volume that this class of local purchaser is scarcely equipped to handle it, owing to his restricted capital or otherwise. Such purchases as are made by the local storekeepers and interior buyers, therefore, are chiefly from the smaller planters or farmers, the larger planters selling principally to the road buyers of the larger merchants and shippers in so far as they market their cotton locally, rather than at spot markets. Both local interior buyers and local storekeepers sell cotton to road buyers. Neither of the former, nor planters, nor farmers, sell or ship, as a rule, to mills, partly because they are not in touch with them, and partly because they do not have the cotton in even running bales suitable for the mill's requirements. An exception to this rule is local cotton in the immediate vicinity of the mill, several of the southern mills buying or offering to buy practically all the cotton hauled into the town where the mill is located.

Direct or road buyers.—Local sales are also made by producers to buying agents, or road buyers, who are employed by the large cotton merchants in buying cotton directly in the producing territory. These buyers work either on a salary or commission basis. They are constantly on the watch for anyone offering cotton for sale in the section where they are located and endeavor to trade to the best advantage for their principal.

They purchase largely, however, from sellers who own or have purchased a considerable quantity of cotton, so that the road buyer can take it up in lots of say 100 to 1,000 bales. Their purchases, therefore, are chiefly from the larger planters, or else from local stores or interior buyers, who may have accumulated 200 or 300 bales, or more, in local warehouses. In sundry cases, however, purchases are made in much smaller lots, even at times in single bales, if cotton is wanted. In fact there are considerable variations in practice both between sections and individual concerns in obtaining cotton, as appears from the following quotations from a study of cotton financing made by the Federal Reserve Board:

Several methods of buying cotton are used by the merchants. Many of the large cotton-buying firms have had offices in one of the principal southern cities and a number of branch offices in other cities throughout the Cotton Belt. From the branch offices buyers are sent into the near-by local markets to buy cotton from growers and local dealers or supply merchants. The extent to which each of the sources is used to obtain cotton varies with the several cotton firms that are organized on an extensive basis. One large firm operating entirely in Tennessee, Arkansas, and Oklahoma says that 65 per cent of its cotton purchases are from local supply stores and 35 per cent are from the growers directly. Another firm that maintains offices throughout the cotton areas in the larger cities estimates that 90 per cent of its purchases are from dealers in the local markets, from 3 to 5 per cent from growers, and the remainder from cooperative marketing associations. Another large organization estimates approximately 50, 40, and 10 per cent of its purchases are from growers, dealers, and cooperative associations, respectively. Other merchants who operate one or more offices in several of the primary markets usually deal directly with the growers in these markets and resell to the firms organized in the manner described. An illustration of the method of buying is given by one of the larger firms in the following:

"We buy practically no cotton from growers, but buy nearly all from local dealers in the interior markets (principally at compress points); we estimate that about 90 per cent of our cotton is bought in this way, the balance is bought from dealers at ports such as Galveston, Houston, and New Orleans; we also occasionally buy from cooperative marketing associations."[5]

The road buyer usually offers what is called in certain sections a "hog round" price; that is, a flat price for the entire lot of cotton, even though it may be of the most widely varying grades and staples.

The road buyer goes through each lot of cotton and samples it. He may sample every bale of it and still not buy it, since he may offer a price which the merchant refuses. He also reports to his concern the quantity of the cotton purchased with his classification of it.

Road buyers are sent out through the cotton country by numerous concerns, and as a result the trade obtains a very good idea as to how much cotton there is available in the various districts. When a buyer for any prominent cotton merchant goes into a certain district, every merchant and scalper and large planter there will know it as soon as he arrives. He may offer a price that takes the cotton of that district, and if he does the news will go out that the organization employing him has bought up a certain quantity in that territory. By combining these reports and estimates, the large buyers obtain very close approximations of the quantities of cotton bought by various concerns.

Cotton bought at a "hog round" price, or taken up by the local agent working on commission, is shipped to a concentration point and is there classed out and shipped to points of destination.

The road buyer gives the cotton purchased what is called "a take up" class and it is the intention always to have him apply a "hard" basis of classification. Obviously, if the buyer undervalues the cotton, and yet secures it, this fact will enable the purchasing concern to sell the cotton at a better profit by obtaining the market price for the actual grade delivered. The road buyers, it is said, are very anxious to buy, however, and therefore in spite of instructions to be "hard" in their classification, they are inclined to do their best to meet competition. In consequence, it is alleged that they often give too high a classification. Frequently they do not have the proper light and weather conditions for scientific classing.

The buyers for the large spot merchants are furnished by the head office with limits or a basis; that is, the number of points on or off which are to be applied to the futures price of the hedge month prevailing at the time the cotton is purchased. The limits are generally

[5] Carson: Financing the Production and Distribution of Cotton; reprint from Federal Reserve Bulletin, p. 38.

sent out once a day but are changed whenever conditions warrant, which may be several times a day. Buyers are also furnished with a list of differences on and off middling to be added to or subtracted from the basis in buying cotton of grades other than middling. These differences in contrast to the limits or basis do not change very often.

To illustrate the foregoing, assume that the buyer's limit or basis is 100 points off the hedge month future and that the list of differences supplied him shows for strict low middling 50 points off middling. If the buyer offered to purchase cotton grading strict low middling his offer would be 150 points off the hedge month. Similarly, if his difference for good middling was, say, 100 on and his limits or basis 100 off, the buyer's offer for good middling would be even with the hedge month.

Some buyers are not supplied with limits, but are given merely a flat price for middling and a list of differences on and off this price for the grades above and below, and in practice there are frequently other variations.

It is the business of the buyer to get the cotton as cheap as he can. He may strike a weak spot in the market, and in the absence of competition find a farmer, or merchant, or a scalper, who would sell him cotton at less than he is allowed to pay. In such cases his firm makes the extra profit.

On the other hand, he may pay more than he is supposed to pay through a mistake of judgment. For example, if the buyer purchases middling and classes it as strict middling, he may allow 30½ cents for the cotton, though his instructions would allow only 30 cents for middling. In this case his concern must stand the difference. The success of a cotton concern, therefore, may well depend very largely upon the good judgment of its road buyers, especially as to their ability to determine the grades of cotton.

Section 2. The concentration of cotton.

The cotton accumulated locally by interior buyers, local storekeepers, and also to a lesser extent, perhaps, by road buyers, may be of considerable variety, either in grade or staple, or both. In consequence, much of this cotton is concentrated at what are known as concentration points. The concentration of cotton from an economic standpoint, is principally in order to bring together lots of cotton of different grades and staples so that they can be classed out and divided into lots of even-running quality. The chief disadvantage of the concentration of cotton is the extra expenses entailed by warehouse and handling charges. If it is possible to class the cotton out at point of origin, and put it under a through bill of lading to point of destination, expenses are saved, because there are no terminal or other charges in making delivery to points of destination. As a result the tendency of the modern cotton business is in this direction.

At certain interior points where they have good warehouses, and particularly compressing facilities, it is sometimes advantageous to concentrate cotton from the smaller points where such warehouse and compressing facilities do not exist. Cotton at these points is put into even-running lots, and again, if possible, put under through bills of lading to point of destination.

Nearly all interior points have more or less satisfactory warehouse facilities, their chief disadvantage, as compared to the larger markets, being the higher cost of handling, particularly the higher insurance rates, and also higher rates of interest if the cotton is carried by the interior banks. Most large handlers find it advantageous, therefore, to get cotton away from the smaller interior points and concentrate it at the larger interior points, or, if possible, at ports where better and cheaper facilities are available, insurance rates are lower, and financing can be done more easily and at lower rates of interest.

The large New Orleans cotton handlers, for example, will concentrate at various important points in the interior, such as Shreveport, Monroe, Alexandria, or any location where the charges and freight rates make it favorable for them to do so.

Section 3. Financing the cotton producers.

Factorage financing.—Originally the term "cotton factor" appears to have been applied to a house which sold cotton on commission for planters and others under an agreement whereby the factor loaned money to the planter or other borrower in advance of and during the growing season, on condition that the latter should ship a certain quantity of cotton to him for sale. This system of financing, however, has been steadily declining and more recently the term "cotton factor" has been applied to any concern that receives cotton for sale on commission. As summed up by one man closely connected with the New Orleans Exchange and the cotton trade of that city:

> The factor is always a commission broker, and usually a credit institution. Formerly, the factor was more of a credit institution than at the present time. He extended credit, not only to the merchants but also to the planters.

Decline of financing.—The decline in factorage financing may be attributed directly to the development of better banking facilities and increased ability on the part of planters and farmers to finance themselves, both because of better credit conditions and their own improved economic position.

It was an old southern custom and almost universal for the farmer or planter to have some one finance him while the crop was growing. In the spring he would come to town and see his factor, who was usually a man of means, and arrange for the factor to furnish him money even to buy the seed. He would then give a mortgage on his crop and sign an agreement to sell it through this factor when harvested. The factor also financed the country merchant and through him the small farmer.

In earlier days there were no small local banks and as a result the planter and merchant were dependent largely on the factor for advances, both prior to and during the growing season. As time went on and local banking obtained a footing, planters and merchants began to turn to this source of funds rather than to the factor. The small bank could loan money more intelligently than could the factor because the banker was a near neighbor and could within limits observe the planter's or the merchant's business. Most of these classes worthy of the best credit could easily obtain funds from the bank and to an increasing extent as time went on those applying to the factor for loans were the less satisfactory credit risks. Factors met with losses on bad credits and in consequence the business, in so far as financing was involved, became less desirable and began to decline. More recently many of the farmers and planters have become able to finance themselves through the cropping season, and to an increasing degree when the crop is harvested, they send the

cotton to the warehouse, take the receipts for it to the country bank, and borrow for their immediate needs, allowing the cotton to remain in the warehouse until they are ready to dispose of it.

A certain amount of the old-style business, however, still remains, due partly to custom and to personal relationships.

Conditions of financing.—In those cases where the factor still finances the planter the arrangements are frequently in the form of a written contract, the terms varying according to the risk as determined by the factor.

The size or amount of the loan is normally based on the volume of cotton produced by the borrower, his financial responsibility, and the character of the security offered. The volume of cotton produced is important by way of indicating the probable quantity of shipments. Commonly the basis of the advance is so many dollars per bale to be shipped—say, one bale for each $25 advanced. Security will vary. The factor may be willing to loan some men on a plain note; in other cases a mortgage on the plantation may be required, or at least a crop lien. Factors are usually more exacting when dealing with a renter than with a plantation owner.

Contracts require that the cotton shall be handled by the factor, the usual rate of commission being 2½ per cent. The rate of interest charged the planter generally varies from 5 to 8 per cent, depending upon current rates for money during the season. In the New Orleans area loans are usually made during the period from March to July, running till October or November. Ordinarily they are not renewed or extended.

Security for loans.—In addition to cotton factors, who sometimes, as indicated, still finance growers to a limited extent, credit is obtained chiefly from banks and merchants and, in the case of tenant farmers, from the landowners.

The merchant is usually an intermediary between the farmer and the bank, or the factor in those occasional cases where the latter engages in financing. Similarly, the landowner is essentially an intermediary between the tenant and the bank or merchant, depending upon which of these two sources the landowner obtains his own credit from.

The following table, taken from a Department of Agriculture report, shows the different classes of security for personal and collateral loans to farmers in the principal cotton-producing States in 1921:

TABLE 1.—*Per cent of personal and collateral loans to farmers secured by various types of security in 10 principal cotton-producing States in 1921* [1]

State	Note without indorsement	Note with one or more indorsements	Mortgage on livestock	Crop lien	Warehouse receipts	Stocks and bonds	Other ways
North Carolina	10.5	68.6	1.7	5.2	2.1	7.5	4.4
South Carolina	9.1	41.0	13.6	20.2	9.7	4.8	1.6
Georgia	12.5	50.1	14.5	4.9	10.0	3.5	4.5
Tennessee	18.1	67.2	5.0	1.5	.8	5.8	1.6
Alabama	10.4	20.1	31.5	26.1	7.5	2.4	2.0
Mississippi	12.7	27.0	20.2	15.1	8.0	9.1	7.9
Arkansas	12.1	37.9	22.7	19.9	3.0	2.2	2.2
Louisiana	15.5	52.7	12.4	5.2	2.7	9.0	2.5
Oklahoma	17.2	12.9	49.3	18.1	.7	1.2	.6
Texas	21.9	18.0	38.1	18.3	1.6	1.1	---------

[1] Department of Agriculture Yearbook, 1921, p. 369.

From these figures it appears that personal notes with one or more indorsements are the most common form of security, except in Alabama, Oklahoma, and Texas, where mortgages on livestock are most important. Livestock mortgages, crop liens, and unindorsed notes are the other most important forms of security.

Period of loans.—The loans in question most frequently run from three to nine months and within this period are rather evenly divided between those running from three to six and those running from six to nine months. This appears in the following table:

TABLE 2.—*Per cent of banks reporting specified average terms of personal and collateral loans to farmers, March, 1921* [1]

State	1 to 30 days	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 1 year
North Carolina	---------	28.0	53.7	15.9	2.4	---------
South Carolina	---------	12.5	40.1	40.8	6.6	---------
Georgia	---------	3.9	50.3	38.5	7.3	---------
Tennessee	---------	28.5	45.0	14.6	11.9	---------
Alabama	---------	4.2	30.5	39.9	25.4	---------
Mississippi	---------	9.2	31.2	38.5	19.3	1.8
Arkansas	---------	7.2	36.7	45.9	10.2	---------
Louisiana	---------	9.3	37.2	37.2	16.3	---------
Oklahoma	0.4	11.6	49.6	31.9	6.5	---------
Texas	---------	7.9	52.1	33.0	6.7	.3

[1] Department of Agriculture Yearbook, 1921, p. 369.

Rates of interest.—The same study of the Department of Agriculture showed that the prevailing rates of interest on personal and collateral loans to farmers in the 10 principal cotton-producing States were as follows:

TABLE 3.—*Average prevailing rates of interest on personal and collateral loans to farmers in the spring of 1921* [1]

	Per cent		Per cent
North Carolina	6.23	Alabama	8.46
Tennessee	7.88	Georgia	8.94
South Carolina	8.06	Texas	9.68
Mississippi	8.11	Arkansas	9.70
Louisiana	8.34	Oklahoma	9.84

[1] Yearbook of the Department of Agriculture 1921, p. 368.

The average rates of interest reported as paid by producers suggest that the smaller cotton farmers of the South, as well as producers in other sections, might profitably study the cooperative credit idea as exemplified particularly in the Raiffeisen societies [6] of Europe with

[6] The Raiffeisen societies, popularly known as village banks, or savings and loan banks, have but one paid official, the accountant, who is generally the village priest, school-teacher, or a local public official, and in the earlier days was often not a member of the society. He receives a salary of from 300 to 800 marks ($71.40 to $190.40 par) a year for his services, and his office, which is frequently in a room in his house or in the barn, is open for business only at stated times, as on holidays, Sundays after church services, and on two or three evenings a week.

* * * * * * *

The Raiffeisen societies exist where the population is sparse. They aim to have one society in each parish or locality of 400 people, each with a small membership now averaging less than 100, and some having only about 15 or 20 members. They are composed mainly of one class, farmers. Their object is not to secure a large membership but to exclude those not eligible, and to benefit the very poor The majority of members come from the middle class. However, any person may be admitted to membership after being recommended by a member of the society and being found on investigation by the trustees to be of orderly habits, good reputation, good moral character, and able to support himself if elected by the members. Few worthy persons are debarred from membership, for nearly every farmer has some equipment or livestock or a little property of some kind that can be used for security if need be.

* * * * * * *

The Raiffeisen societies * * * hold to the original principle of unlimited liability. (Edson L. Whitney, Cooperative Credit Societies in America and in Foreign Countries, Bulletins of the United States Bureau of Labor Statistics, No. 314, pp. 2–5).

their principle of unlimited liability of members. In North Carolina the cooperative credit societies or credit unions have been making slow but steady progress. According to the 1921 reports of the North Carolina Superintendent of Credit Unions, there were 22 such unions in the State with 1,002 members and assets of $90,819. Several of these associations were composed of negro farmers.[7]

Section 4. The spot cotton markets.

In determining the scope of the field inquiry the spot markets selected for study were those 10 designated by the Secretary of Agriculture for ascertaining the price differentials at which the various grades of cotton will be deliverable on contracts for future delivery.

Spot cotton sales by markets.—The volume of sales of spot cotton in these 10 markets for the last three years is shown in the following table:

TABLE 4.—*Sales [1] of spot cotton [2] in 10 markets by crop years, 1919–20 to 1922–23*

[In thousands of bales]

Market	1919–20	1920–21	1921–22	1922–23	4-year average
Houston [3]	1,350	1,874	841	977	1,260
Dallas	894	[4] 918	879	974	916
New Orleans	568	323	476	347	428
Galveston	427	97	292	470	321
Memphis	386	334	397	263	345
Little Rock	145	189	153	316	201
Norfolk	165	99	172	126	140
Augusta	254	90	55	60	115
Savannah	159	63	73	71	91
Montgomery	49	36	27	31	38
Total	4,397	4,023	3,365	3,635	3,855

[1] Figures compiled from Department of Agriculture reports of designated spot markets, for the 52 weeks ending with the last Saturday in July.

[2] The term "spot cotton" is used as contrasted with future contract cotton. For some markets the sales figures include cotton sold to-arrive and f. o. b. as well as cotton sold on spot terms.

[3] Houston sales include f. o. b. cotton.

[4] No sales at Dallas were reported from Oct. 19 to Nov. 27, 1920. From Nov. 28 to Dec. 26 spot and to-arrive sales only were reported. Following Dec. 26, spot, to-arrive, and f. o. b. sales were reported as prior to Oct. 19.

While the foregoing figures are designed to give some idea of the relative importance of the different markets, they really give comparatively little information owing to the fact that the reported sales are computed upon different bases, with the result that the figures are frequently not comparable with one another. As these differences in the bases of reporting sales are discussed in detail elsewhere in the report (see Chap. VI), it is not necessary to go into the matter in detail here.

It should be noted, however, that there might be considerable changes in the indicated importance of various markets were the reports of sales based upon transactions of identical character in the different markets instead of being compiled upon the basis of different types of sales.

Spot cotton receipts.—The importance of various interior cities in the Cotton Belt and of various ports north and south as receiving points for cotton is indicated by the following tables.

[7] Ibid., pp. 44–51.

The figures in Table 5, so far as it has been possible to determine, are figures of total receipts from all sources. Figures in Table 6 are of net receipts only and exclude shipments arriving from other ports. Apparent discrepancies between certain of the figures in these tables and the sales figures in the last preceding one are probably due to the fact that sales figures in certain cases (for example, Dallas) include sales of cotton outside the market on to-arrive and f. o. b. terms, which cotton is never actually received at the market where the sale is reported.

TABLE 5.—*Average receipts of cotton at 20 interior towns, 1919–20 to 1922–23* [1]

	Receipts in bales, average		Receipts in bales, average
Houston	2,599,892	Shreveport	79,164
Memphis	1,055,500	Montgomery	58,307
St. Louis	812,934	Columbus, Ga	66,005
Augusta	407,777	Rome	44,251
Atlanta	243,354	Helena	37,307
Columbia	235,826	Selma	42,023
Little Rock	192,108	Meridian	34,936
Dallas	143,085	Yazoo City	30,238
Macon	102,522	Natchez	27,155
Fort Worth [2]	89,750	Vicksburg	20,805

[1] Compiled from the Annual Reports of the Cotton Crop for the years ending July 31, 1922, and July 31, 1923, New York Cotton Exchange. The receipts reported do not state whether they are gross or net receipts. So far as can be determined directly from the figures available, in a few of these markets the receipts include all cotton coming into the market from all sources.

[2] Three-year average, 1919–20, omitted.

TABLE 6.—*Average net receipts of cotton at ports, 1919–20 to 1922–23* [1]

	In bales, average		In bales, average
Galveston	2,535,772	Wilmington	115,549
New Orleans	1,378,668	San Francisco	89,568
Savannah	812,139	Brunswick	58,924
Houston	435,094	Baltimore	56,709
Norfolk	321,505	San Pedro, Calif	51,693
Charleston	208,055	Boston	52,666
Port Townsend	145,133	New York	26,251
Mobile	158,390	Philadelphia	18,183
Texas City	120,054		

[1] Compiled from the Annual Reports of the Cotton Crop for the years ending July 31, 1922, and July 31, 1923, New York Cotton Exchange. The gross receipts of cotton by ports consist of cotton from all places, including cotton that may have been received from some other ports. Net receipts include only cotton that has not touched at any other port.

Augusta.—The Cotton Exchange of Augusta, Ga., was organized September 16, 1920, and took over the assets of the Augusta Cotton Exchange and Board of Trade, the latter organization, which had been formed in 1887, being dissolved. The membership is composed of 84 full members, 28 attorneys, and 28 associate members.

The areas tributary to the Augusta market are South Carolina, Georgia, and parts of Alabama and North Carolina, but this tributary territory is practically all within a radius of 150 miles at the outside. The grades and staples preponderating in the market as reported in 1922 are middling to strict low, seven-eighths to an inch. The bulk of the business is factorage, it being estimated that in normal times from 75 to 80 per cent of the receipts are factorage

cotton to be sold on commission for the account of the interior shippers.[8]

The balance, 20 or 25 per cent, is purchased outside of the market by Augusta concerns. It is estimated that about 90 per cent of the total receipts are spot and 10 per cent to-arrive. Foreign buyers and exporters are said to take about 30 per cent of Augusta cotton, 70 per cent being absorbed by domestic concerns. Of this latter probably 90 per cent goes to southern mills and 10 per cent to New England. The city has storage capacity of around 300,000 bales, and it is estimated that its mills will consume 100,000 bales annually.

Norfolk.—The Norfolk and Portsmouth Cotton Exchange was organized in 1874, but was not incorporated until 1877. The active membership is only 26, but there are 31 associate members.

According to statements made in the summer of 1922 the grade and staple predominating in the market is strict low middling seven-eighths inch. A considerable quantity of three-fourths-inch cotton and a great deal of stained cotton, both blue and yellow, is received. It is estimated that 95 per cent of the receipts are spot and about 5 per cent to-arrive. About 45 per cent of the sales made are for export and about 55 per cent to domestic concerns. Of the domestic sales about 90 per cent are to New England mills or for delivery on New York futures contracts, the balance going to southern mills.

Savannah.—The Savannah Cotton Exchange was incorporated in the early seventies. The Savannah market has a warehouse capacity of from 500,000 to 600,000 bales and receives in the neighborhood of 1,000,000 bales of cotton annually, drawn from Georgia, Alabama, and the Carolinas. The preponderant grade and staple as reported in 1922 is average middling seven-eighths inch. It is estimated that 35 to 40 per cent of the cotton received goes to local factors for sale on commission, while from 60 to 65 per cent of the receipts are bought in the interior. The secretary and superintendent estimates that 32 per cent of the business is spot and the balance f. o. b. While there are about 13 factors in the market it is reported that the bulk of this business is handled by three concerns.

On the selling side Savannah is primarily an export market. Sales are estimated to be 75 per cent to foreign buyers and exporters. About 18 per cent of the domestic sales are estimated to go to New England mills and 7 per cent to southern mills.

Dallas.—The Dallas Cotton Exchange was incorporated in 1907 and in July, 1922, was composed of about 80 active members and 60 associate members. Strictly speaking, the tributary area of the market is probably within a radius of 100 miles—what is known as the "black land belt"—but the market draws cotton from all over Texas, parts of Louisiana, Oklahoma, and some even from California. The preponderating grades and staple, according to interviews in 1922 are strict low middling to strict middling of from 1-inch to $1\frac{1}{16}$ or $1\frac{1}{8}$ inch staple, though it is stated that the grades depend entirely upon the season. Almost all of the Dallas business is spot, the to-arrive business being very small. Estimates of the volume of receipts sold on commission for the account of shippers range from as low as 10 to as high as 25 per cent and of the volume of receipts bought outside the market from 75 to 90 per cent. From 75 to 80 per cent of the sales are estimated to be for export and to foreign buyers and 20 to 25 per cent for domestic consumption, the latter being divided about evenly between northern and southern mills. There is a small quantity of street or wagon cotton sold in the Dallas market. This cotton is brought in by growers who have a few bales, perhaps only one or two, in some cases.

[8] It is estimated that only 50 per cent of the crop of 1921 was handled on this basis, however, owing to the short crop, and factorage is reported to be declining.

Montgomery.—There has been a local cotton market at Montgomery antedating the Civil War, but the present Montgomery Cotton Exchange was organized October 23, 1912. There are 19 full members and a few associates. The exchange is really only an association for the purpose of obtaining market reports, etc., and the only regular employee is the secretary.

The market serves a relatively small territory about 50 miles north, 40 miles west, 30 miles south, and 25 to 40 miles east. Reports made in 1922 show that middling grade and seven-eighths inch staple preponderate in the market. Normally from 40,000 to 60,000 bales are handled and in exceptional years 75,000. It is estimated that 50 per cent of the receipts are on commission, the other 50 per cent representing purchases of local concerns made outside of Montgomery. About 25 per cent of all sales, it is estimated, are for export, about 40 per cent are to eastern mills, and 35 per cent to southern mills.

Little Rock.—The cotton market at Little Rock, Ark., has probably existed since the establishment of the city. The Little Rock Cotton Exchange is an outgrowth of the board of trade of this city, which was formed in 1886 and consolidated in 1916 with the chamber of commerce. Little Rock receipts are almost exclusively from Arkansas and have averaged around 200,000 bales in the last five years. Above 10 per cent of these receipts have been wagon or street cotton.

As reported in 1922, the cotton runs largely from 1 to $1\frac{1}{16}$ inch staple, though the market handles all kinds of cotton from "dog" on up. The grade in years of bad picking weather may run as high as 75 per cent low grade, but in normal season will run 50 per cent middling with some higher grades.

Houston.—The Houston Cotton Exchange was organized in 1874 and the membership at the present time is composed of 150 regular and 22 associate members and 5 representatives of steamship agents, owners, charterers, etc. The cotton supply of the market comes from Texas, Oklahoma, Arkansas, and Louisiana. Like Dallas, some cotton is obtained from California. Houston compresses and warehouses can take care of something like 600,000 bales of cotton at one time.

The preponderant grades and staples are apparently strict low middling and strict middling of 1 to $1\frac{1}{16}$ inch staple, according to statements made in 1922. In 1920–21, 968,969 bales out of sales of 1,279,680 and in 1921–22, 536,748 bales out of sales of 825,838 were sales to arrive, or 75 and 64 per cent, respectively.[9]

It is estimated that from 15 to 25 per cent of the receipts are for sale on commission for the account of the shipper, the balance being purchases made outside the market for the account of Houston merchants.

[9] These figures differ somewhat from those given in a preceding table. It happens that the Houston exchange is one of the few which publishes annual sales and these figures are taken from those statements. In the table above the weekly sales as compiled by the Department of Agriculture were used.

The lowest estimate of the volume of sales to foreign buyers and exporters on this exchange is 70 per cent of the total. Most concerns of whom inquiry was made estimated that this class of business composed from 80 to 90 per cent of the sales made.

Considerable wagon or street cotton is received at Houston, though this constitutes but a small proportion of the total receipts. In the cotton year 1920–21 these receipts amounted to only 2,278 bales, but in the preceding year they aggregated 6,048 bales. Though such cotton could presumably be sold to any of the local buyers, the secretary of the exchange states that there are only some four or five buyers out of the 70 cotton firms there who purchase it.

Memphis.—The Memphis Cotton Exchange was organized in December, 1873, and in 1922 was composed of 175 members. From 1913–14 to 1921–22 gross receipts at Memphis have ranged from 929,917 bales in 1920–21 to 1,422,237 bales in 1917–18, and net receipts from 335,344 bales in 1921–22, to 753,462, in 1916–17. Roughly speaking, from 50 to 65 per cent of the gross receipts are through cotton.[10] Sales of cotton for the last three crop years have been about 370,000 bales annually, as shown in a preceding section. The secretary of the exchange is authority for the statement that while all kinds of cotton are handled from short three-fourths inch up to staple $1\frac{3}{8}$ inches, the bulk of the receipts (probably two-thirds) are staple cotton running $1\frac{1}{16}$ inches and above.

The factorage and commission business is particularly important at Memphis as is indicated by the estimate that 85 per cent of the receipts are consigned to these classes of concerns. At the same time it is stated by factors at this market as at others that the factorage business is on the decline. This refers not only to the sale of cotton on commission, but also to the commission business when financing is involved, since certain of the Memphis factors still finance farmers and country merchants to some extent.

Very little cotton is sold to-arrive, according to the secretary of the exchange, who estimated that not much more than 1 per cent was so disposed of. It is stated by factors, however, that owing to changes in freight conditions Memphis is tending to become an f. o. b. market and that a number of factors are selling cotton "to-arrive" and from actual samples of bales stored in the interior.

It is estimated that approximately two-thirds of the Memphis sales are for export and one-third domestic, the latter being about equally divided between eastern and southern mills. As already stated, the market receipts are very largely composed of high-grade long-staple cotton, which is much in demand by English spinners, so much so, in fact, that it is stated that Memphis is considered a Liverpool market.

Galveston.—Galveston is by far the greatest cotton receiving and exporting port in the United States, surpassing New Orleans in both of these respects. In the crop year ending 1921–22, Galveston net receipts were 2,551,935 bales and in 1922–23, 2,345,674 bales. The city's total exports in corresponding years were 2,494,504 bales and 1,929,111 bales. These figures exceeded by approximately 1,000,000 bales, or more, the New Orleans net receipts and exports of the same years.[11]

[10] Annual cotton statements, Memphis Cotton Exchange.
[11] Cotton crop of the United States, secretary's report (Hester's), New Orleans Cotton Exchange, 1922–23.

It is estimated that from 75 to 90 per cent of the total Galveston receipts are "to-arrive" or "f. o. b." cotton, the balance being spot. The commission business is stated to be relatively small, from 75 to 90 per cent of the total receipts representing purchases made directly from points outside the market. About 85 per cent of the total sales are reported to be either to foreign buyers or for export. Another 10 per cent, it is estimated, goes to New England mills, and the remaining 5 per cent to southern mills.

New York.—While New York is easily the most important of the two future markets in the United States, it is of but little more importance as a market for spot cotton than some of the smaller southern spot cities.

In 1919–20 New York spot sales, in round numbers, were only 59,000 bales, and in 1920–21, 37,000. In 1921–22 they totaled 61,000 bales and in 1922–23 only 25,000 bales.[12] On the basis of total spot sales, therefore, New York is about comparable with Montgomery, Ala. Moreover, some of the cotton sold on the New York market represents cotton outside New York sold to arrive at points other than New York. It is usually cheaper to load cotton at some southern port, thus taking advantage of through rates and saving in storage and handling charges, storage charges being considerably higher in New York than in the South.

Despite the small volume of spot cotton sold in New York, the total receipts at that port are fairly heavy. Thus, in each of the crop years 1920–21 and 1921–22 they aggregated approximately 500,000 bales.[13] Most of this cotton is, however, through cotton not unloaded to be sold, but merely arriving there in the course of the movement to its final export or domestic destination. In the year ending July 31, 1922, for example, the receipts of through cotton amounted to 318,888 bales out of total receipts of 537,194 bales, according to the secretary.

New Orleans.—The New Orleans Cotton Exchange was originally chartered in 1873, though its present charter was granted in 1898.

On the basis of domestic freight rates—that is, for domestic business—it is claimed that New Orleans territory includes Mississippi west of the Gulf, Mobile & Northern Railroad, western Tennessee and Kentucky, all of Louisiana, and central and eastern Arkansas. While New Orleans draws on other producing areas and meets some competition in the areas described above, this may be said to be New Orleans territory.

On the basis of export rates—that is, for foreign business—New Orleans draws on northeastern Texas and Oklahoma in addition to the area described above.

New Orleans is largely eliminated from handling Texas business, however, except in a secondary way. Texas has been producing on the average about 27 per cent of the cotton crop. About 3,000,000 bales are produced within 250 miles of Galveston. New Orleans has no such large immediately tributary area because the lower part of the State is devoted largely to rice and sugar. Galveston and Houston are in position to secure the bulk of the central Texas business and Houston is assisted by favorable freight rates. Next to Galveston, New Orleans is the largest cotton port in the country. Savannah is

[12] Figures compiled from Department of Agriculture reports.
[13] Annual report of the cotton crop, New York Cotton Exchange.

its principal competitor for export business. Mobile also competes to some extent for exports from the Gulf, but the business varies little from year to year and there seems to be no great effort to expand it.

Ocean rates have been such as to give New York a differential of 25 cents per 100 pounds over New Orleans, $7\frac{1}{2}$ cents to Savannah, and 15 cents to Norfolk. Considering the insurance and interest charges in addition to the ocean rates, New Orleans exporters contend that they need a rail differential of $11\frac{1}{2}$ cents to compete with Savannah on an equal footing. They also contend that they should have a minimum differential of 45 cents in order to compete with the Pacific coast for Asiatic business.

For several years past net receipts of cotton at New Orleans have been comparatively stable, varying only from something over a million and a quarter to something over a million and a half bales. Gross handlings at the port for the last few years are estimated at from 11 to 16 per cent of the commercial crop.[14]

During the five years 1917–18 to 1921–22, the average of the grades handled at New Orleans was middling in two years, barely middling in two years, and strict low middling in one year. The staple normally preponderating is seven-eighths to 1 inch, perhaps, mostly seven-eighths inch, though a considerable quantity of the extra staples are handled, varying with the season. Out of total sales of 1,030,000 bales in the year ending October 31, 1922, something over half, 550,000 bales, were local sales, according to the secretary of the exchange. About 230,000 bales were sold to-arrive and f. o. b. and 250,000 guaranteed through. Of this total, 46,963 bales were absorbed by the local mills, 189,775 bales were shipped by rail to southern mills, the balance, 793,162 bales, was shipped to foreign consumers and eastern mills.

Section 5. Factorage compared with direct business.

Factorage business, meaning the sale of cotton on commission, either with or without financing, is perhaps more important relatively at Memphis than at any other of the larger spot markets, it being estimated that 85 per cent of the receipts at this market are consigned to factors and commission men. The estimated volume of factorage or commission cotton is also high at Augusta, 75–80 per cent. At most of the other important markets the proportion of cotton for sale on commission is considerably below 50 per cent. At Memphis the financing of the planter by the factor is perhaps in use to a greater extent than at any other market.

Some of the small markets also have factors and in some places the factor's business is combined with the grocery business, so that supplies can be shipped to customers to be covered by shipments of cotton. This condition does not obtain in New Orleans, however.

It is quite generally admitted that factorage in the sense of the spot cotton commission business is on the decline, as well as the factorage system of financing. The steady increase in the volume of direct business is gradually destroying the older commission system of handling.

In the old days the interior had no storage places and no small banks. After the farmer's or the planter's cotton was ginned,

[14] Supervision and levee inspection department reports in Annual Report of the New Orleans Cotton Exchange. Gross handlings or receipts include cotton received at New Orleans from all points. Net receipts consist of cotton which has not touched at another port.

therefore, it became necessary for him to ship it to some place where buyers were to be found, because he had no local storage facilities available, nor, even if there had been, the credit facilities to finance the carrying of the cotton. On the other hand, buyers would go only to those places where cotton was to be found in quantities, and so there developed concentration points, originally probably ports or river points, to which the farmers and planters sent their cotton and at which buyers congregated. As one Memphis factor puts it:

> My father began this business over 60 years ago. At that time there were only a few railroads, and most of the cotton coming to Memphis from a distance came by river, and it all came to Memphis, for that was the only place to sell it.

Under these conditions, therefore, it was necessary for the farmer and planter to employ an agent at the concentration point to look after the sale of the cotton, and so the commission sales system developed with its adjunct of financing.

As time went on more railroads were built, telephone lines were constructed, small banks sprang up in the interior, and cotton compresses and warehouses began to appear. The interior compress was a significant factor in the development of a different system of marketing, because cotton could then be shipped compressed making a certain saving in freight and the through bill of lading was possible. The warehouse and the bank were similarly important. As soon as these were established it became possible for the planter to finance himself and to carry his cotton locally after the crop was picked. Buyers, as a result, began either to visit or to locate at these interior points, and bought cotton, shipping it on through bills of lading to the mills in this country, or to Europe, and with this development the practice of selling cotton on commission declined.

At the present time all the firms with a large enough business to warrant it have buyers throughout the country, and their agents visit the small towns as well as the larger centers. These buyers, however, as already stated, buy chiefly from the larger planters or the local buyers who have gathered up the cotton produced by the small farmer or planter, who, perhaps, makes only three or four bales.

Buyers may be given their instructions by telephone or telegraph—that is, the number of bales to be purchased, the buying limits, etc. Thus the cotton merchant may instruct his buyer or agent to buy 100 bales of a certain grade basing the price at so much on or off the future and shipping the cotton direct from the interior point or points where purchased to destination, in some cases not even bringing the cotton to a concentration point. The present-day situation with reference to interior buying is thus described by a New Orleans exporting house, which does little or no interior purchasing:

> Our market has been narrowing, and our scope has been narrowed very considerably in the late years on account of the developments of the spot markets, such as Vicksburg, or Natchez. All of the small towns now have their own markets, and people established there; whereas, formerly they were all subsidiary to the large markets. Take a town like Hattiesburg, Miss., the buyer there probably has foreign connections, and he has only one set of charges. But if that cotton is bought by one buyer in the interior and he sends samples to a factor in New Orleans, it has to be reexamined, and our local charges have to be met. We feel that a shipper in the interior has an advantage over us; in fact it

is a very decided advantage so much so that on certain classes of business we are cut out entirely. Suppose we were established at Brookhaven, Miss., instead of at New Orleans. In buying that class of cotton, we would buy it at first hand and ship it with the initial charges on it, and it would come to New Orleans and not contribute anything to anybody here. But situated as we are, in New Orleans, we have got to buy through a factor who represents a seller at Brookhaven, and although charges have been incurred at time of shipment at Brookhaven additional charges have to be incurred at time of shipment when it reaches New Orleans, and of course that makes it very difficult for us to compete with the interior. And so the big firms whose business is large enough to warrant, have buyers throughout the country. They can ship it direct from the interior, and handle it by telephone from here. A number of such firms are thus organized. McFadden & Bro. for example have their buyers in the interior, and they can give limits over the telephone or telegraph, and save the New Orleans charges—only incur one set of charges on the cotton and ship it from the interior points direct to the mill or to Europe, wherever it happens to be going; I think that we as exporters, are at a big disadvantage; that the interior is getting stronger and stronger.

The large firms in buying directly usually work on the basis of the futures entirely. Buyers in the interior are given their limits and instructed to use New York or New Orleans futures, whichever suits the firm the best. Information obtained is to the effect that Texas markets use New York almost entirely, as does also Memphis, while points more tributary to New Orleans use the futures of that market because they are in closer touch with it.

The rapid increase in direct buying is of particular interest, in view of the extent of the considerable centralization of the spot-cotton business in the hands of a few organizations which is shown elsewhere in this report. As stated by a representative of one of the largest spot cotton merchants in the country, the fact that the seller can afford to sell at a price minus commission if the cotton is bought directly is one of the advantages of direct purchasing.

This raises the question whether or not concentration in the spot-cotton business would be as great as at present if uniform commission rules applied to direct purchases of cotton in the country as they do in the case of grain. Members of the grain exchanges at Duluth, Minneapolis, and Milwaukee buying grain in the country are required by rule to make bids, offers, and purchases on the basis of market values "less commission or a profit at least equal to the established rates of commission," the purpose of the rule being to place direct buyers on practically the same basis as commission merchants and thus reduce the advantages acquired by the elevator interests in buying directly. The Chicago, Kansas City, Omaha, and St. Louis exchanges have set up a special schedule of charges known as handling charges to be included in making purchases at points outside for shipment to the market, and these charges are required to be deducted from each bid to persons located outside the market.[15]

None of the cotton exchanges has any such rule as applied to buying grain directly, and for this reason the question of what effect upon concentration similar provisions in the case of cotton would have is an interesting one, even though it is not possible to arrive at any definite conclusions thereon. Reasoning by analogy, the adoption of similar uniform commission rules by the cotton exchanges would tend to equalize the advantages now enjoyed by the direct as compared with the commission business. This in turn would tend to increase the latter as compared with the former, decrease the volume

[15] Federal Trade Commission; Report on the Grain Trade, Vol. II, pp. 235 and 238.

of direct buying, and hence reduce the concentration of the spot handling business. Yet there are differences in the handling of grain and cotton that render it by no means certain that such would be the case. In the first place, cotton is not sold on the exchange floor as is grain, but is sold from samples in the factors' offices.

In consequence, the exchange spot trading facilities for cotton are of comparatively little importance as compared with the exchange facilities for spot grain. It is quite possible, therefore, that certain concerns, and particularly perhaps the larger spot handlers, would feel that they could perhaps better sacrifice their exchange memberships and avoid the operation of the uniform commission rule than give up the privilege of buying directly at lower prices.

Again, there are at least some indications that the size and importance of certain spot merchants does not depend merely upon direct buying. Thus, for example, the assistant manager of an important office of one of the largest spot handlers stated that though the spot business is no doubt increasing, they buy most of their cotton from factors. His explanation of this policy was as follows, quoting from the report of the interview:

If I had 100 bales in the interior on the basis of 22 cents and the market has advanced to 23 cents before I can accept the cotton, the seller may not be willing to deliver the cotton at the agreed price; whereas if I buy the cotton through a factor I have his guaranty and I am not dependent upon the seller; in fact, I know nothing about the seller if I buy through a factor. As a rule, a factor is a more reliable concern from which to buy.

Question. Why can not you accept delivery immediately upon purchase in the country?

Answer. If we buy 1,000 bales at Natchez, we can not take up that 1,000 bales until our man has gone there to examine the cotton and establish the class and basis for settlement. We can not afford to have a man in Natchez only for that purpose. He must take care of several points and may be out of Natchez on any particular day.

Section 6. Consigned cotton.

As already indicated, small farmers normally sell to general store merchants or local interior buyers and even the larger planters may do so in certain cases. Usually, however, this latter type of producer sells directly to the buyer or other agent of the large spot merchant, or ships to a factor for sale on commission.

In general most planters sell their cotton either to the local interior cotton buyers, or the roadmen, who are the agents for the larger buyers in the spot markets. Some planters, however, still adhere to the older method of consigning their cotton to a factor in one of the large markets. General store merchants and local interior buyers who have gathered up miscellaneous lots of cotton likewise may sell through factors on commission rather than to the road buyers.

The country merchant particularly, will ship to the factor in those cases where he operates on funds borrowed from the latter.

The factorage or commission business is of two types, "consignment" and "to-arrive," but apparently some concerns do little or no business of the latter class.

According to the former method a planter, general store merchant, or other purchaser in the country ships cotton to the factor or cotton commission merchant on consignment to be sold in return for a commission upon the sale, the said commission varying according to the market in which the factor is located. For example, the commission

charge at New Orleans is 2½ per cent of the value of the cotton, whereas at Houston it is $1.25 per bale. Upon arrival of the shipment the railroad company notifies the factor and prepares a manifest which shows the number of bales, location, point of origin, charges, etc., of all the cotton brought in for the account of the factor. This cotton may originate at various points along the line, and it frequently happens that no advice of any shipment is received from the shipper and that the first notice the factor has thereof is the receipt of the manifest from the railroad company. The factor turns over this document to the drayman, who accepts the cotton from the railroad company and delivers it at the compress or warehouse. The drayman inspects the cotton he receives to see whether or not the bales are in good order. He is usually held responsible for calling attention to any bad order or damaged condition that he finds in the cotton, and these facts are noted and proper inquiry made to determine responsibility.

Upon delivery at the warehouse the cotton is inspected and sampled and a sampler's list prepared showing the numbers of the bales in numerical order. This sampler's sheet is then given to the factor with the tagged samples, and the shipper is advised that cotton bearing certain marks and received over a certain railway has arrived. The samples of the shipper's cotton when received at the factor's office are classed by the factor's own classers and this classification is recorded by the factor for his own information and that of his clients. No record of the classification is made on the sample itself, however. After the samples have been classed by the factor they are either placed on the factor's tables for sale or are rolled up and stowed away in large racks with which factors' offices are equipped, depending upon whether the shipper desires that the cotton be sold or held. Some samples may be thus held in the racks for some time before the owner decides to sell.

From the classification of his classer the factor makes up his mind with regard to the grades and the averages of the grades represented in each particular lot. The samples, laid out on the tables for sale, are inspected by the prospective buyers, who examine and judge the class and value in their own way, having no information as to the judgment of the factor in these matters. The negotiation as to the purchase and sale is carried on with respect to the specific bale or bales represented by the sample or samples.

Sales are practically always in round lots. The owner of a number of bales of cotton desires to dispose of the whole consignment. He does not wish to have his cotton picked over or classed and the better-quality grades sold, leaving him with the less desirable cotton still to be disposed of. In consequence, the buyers who come to the factors' tables to look at their samples will take, in the case of each purchase, all the cotton represented by a given lot of samples.

In general, factors now handle their consignments upon a different basis than formerly. Up to about 10 or 15 years ago, when the farmer ginned his cotton and consigned it to a factor, he had nothing to do with the selling. The factor sold when he pleased and at what price he pleased, and the farmer had nothing to say. But to-day, as a rule, no factor sells any respectable lot of cotton—say, 50 bales or more—without getting in touch with his customer, telling him the price he can secure and having his approval as to price, etc., before

trades are made. A prominent factor observes that while the factor reserves the right to sell the cotton at any time after the receipt of it, no factor, to his knowledge, has ever failed to hold cotton for a planter if it was the desire of the latter and his account with the factor was in satisfactory shape.

This change in method may be attributed to the fact that the planter to-day desires to control the selling end of transactions through factors, determining both when his cotton shall be sold and the price. Practically, therefore, the planter of to-day decides largely for himself the conditions under which his cotton is disposed of, even when it is sold through factors.

When the cotton is sold, a sales sheet is made out by the factor showing, among other items, the tag numbers of the individual bales, weights, price received, proceeds, and charges. If any bale is found to be nonmerchantable, that fact is indicated on the sheet. At the same time the sales sheet is made out a report of sale is also made to the client.

Section 7. To-arrive cotton.

In the case of "to-arrive" cotton as distinct from "consigned" cotton, the commodity itself is located outside of, instead of at the market and the sale is made for shipment to the market within a specified period. In the New Orleans market, unless some special time is agreed upon cotton sold to arrive is to be shipped from the interior point where purchased within 10 days, with certain exceptions.[16] Failing shipment to New Orleans within the specified time, it becomes a question of delivery and the local seller obligates himself to deliver the quantity and quality of cotton sold on the spot in New Orleans within two weeks after the time at which it should have been shipped. In such case the buyer is not compelled to pay the country invoice, but pays for the cotton on satisfactory delivery if made within the two weeks specified.[17]

To-arrive sales may be on sample, on type, or on description. When the sale is on sample, however, it is obvious that the samples have been drawn outside the market by the seller and forwarded to the factor, the cotton itself remaining in the country, whereas, in consignment sales the cotton is in the market and is sampled there at the warehouse. In some cases, however, to-arrive cotton is shipped in before it is sold, and in such cases samples from the warehouse are employed instead of those sent in by the owner. When to-arrive cotton is handled by a factor the samples are customarily shown on different tables than the samples of consigned cotton.

At New Orleans when cotton is sold to-arrive on samples or type it is optional with the buyer whether he rejects or accepts with an allowance any bales tendered which were not represented in the original samples or types.[18] If, however, under this rule rejections out of any lot amount to 5 per cent or more, they must be replaced immediately by the local seller, with cotton ready for delivery; or, at seller's option, settlement may be made with the buyer at the difference in the market value of the cotton between the date of sale and date of rejection.[19]

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[16] Rule 5. Rules of the New Orleans Cotton Exchange, adopted July 12, 1922, effective August 1, 1922, p. 17.
[17] Ibid.
[18] Rule 17. Ibid., p. 25.
[19] Rule 18. Ibid., p. 26.

On the other hand, the to-arrive sale on grade description allows the seller at his option to deliver 65 per cent or more of the grade sold, and 35 per cent or less of a half grade lower at market differences.[20] It is stated that this rule was adopted to meet the extreme difficulty of securing the full grade on cotton classed in the interior and because of the expense and irritation attendant upon rejections.

As one factor put it, rejections cost a dollar a bale very frequently and are very costly. Where 35 per cent or less is delivered at a half grade lower the buyer is allowed the market difference, but rejections are avoided.

Section 8. Methods of selling spot cotton.

The methods of selling spot cotton may be divided into three general classes: (1) On sample; (2) on type; (3) on description.

On sample.—On sample means on "original sample" and a sale on sample means that the sale is on the basis of a sample for each bale, and that each bale must come up to or equal the sample for that particular bale.

On type.—In selling by type the dealer may offer his prospective customer, or the prospective purchaser may offer to buy from the dealer cotton equivalent to a specified type. The type itself may be made up by the dealer or by the spinner and may be one sample or it may be twenty; i. e., a selection of samples made up as a type to which the shipment must conform. The purchaser or seller does not necessarily designate these types as belonging to any given standard classification either by grade or by staple length, but merely offers type samples of cotton which the other might be interested in selling or buying. Very likely each type will be designated by some arbitrary name such as type "John" or type "Ruby." The dealer offers to sell the manufacturer, or the manufacturer offers to purchase cotton of the given type "John," "Ruby," etc., at indicated prices. The other in turn will accept the offer to sell or buy a specified number of bales equal to type "Ruby" or any of the types provided the price named is satisfactory to him.

Sales "on type," therefore, like sales "on sample," are made on the basis of certain samples. The point of distinction between the sale "on sample" and the sale "on type" lies in the fact that in the former case the samples exhibited represent specific bales of cotton, and each sample carries the number of the bale. In other words, the sale is of specific bales.

On the other hand, the type samples on the basis of which sales are made represent a grade and staple length and character of cotton, but they have no reference to any particular bale. For example, the dealer who is prepared to offer a certain type of cotton for sale does not send to his prospective customer a sample from every bale; he sends only a sufficient number of samples to indicate the type offered. The manufacturer or purchaser in turn who orders the cotton from the dealer does not require the delivery of any particular bale to be identified by type sample; he merely buys cotton equivalent to the type sample. If the type shows variations of grades and/or staple, shipments must conform proportionally to these variations. For example, if the type was made up of 20 samples, of which 10 were middling, 5 good middling, and 5 strict low middling, a type sale of

[20] Rule 15. Ibid., p. 25.

200 bales would call for 100 bales of middling, 50 bales of good middling, and 50 bales of strict low middling. Types may vary in either or both staple and grade, but if there is a variation of both grade and staple it is more difficult to accumulate the cotton and also gives greater opportunity for dispute.

This method of selling is extensively employed, especially among exporters, and various types are established by cotton merchants and sometimes even by spinners. The practice may perhaps be said to amount to buying and selling on private brands.

On description.—Cotton sold on description is sold to equal a certain grade, staple, or both, without the buyer seeing any sample, the description specifying the grades and staples the buyer is to receive. This method of trading is employed, for example, when actual samples are not available at the moment of trading, but where the buyer is familiar with the character of the cotton coming from the section in which he is making his purchases.

Section 9. F. o. b. and guaranteed through cotton.

F. o. b.—Since August 2, 1919, there have been no f. o. b. rules at New Orleans, and consequently if sales of f. o. b. cotton are made they are under specific terms and constitute a specific contract. An arbitration committee decision of the exchange, however, states that the term "free on board" as generally understood in this market means that the price shall include compressing, freight to New Orleans, and drayage from railroad depot or landing to ship side or warehouse.[21]

At Houston the rules provide that "when spot cotton is sold to be delivered f. o. b. the barge, ship, or railroad at Houston, the price agreed upon shall cover all charges, except wharfage and exchange fees, necessary for the proper delivery of the cotton."[22]

Guaranteed through cotton.—"Guaranteed through" terms of sale are employed chiefly in export trade.

The seller of "guaranteed through" cotton guarantees the gross landing weight to be within 1 per cent of the gross invoice weight. He also guarantees the grade and/or staple of the cotton. Such guaranteed through cotton is not reweighed or resampled after it is shipped until it arrives at destination, unless the buyer or the seller has good cause to suspect serious irregularities. The advantages claimed for this form of selling are that it reduces the expense involved in rehandling and also that it affords the interior buyer or merchant a direct export outlet for his cotton. He probably has no export connection on the other side, and cotton commission houses or factors can offer his cotton on a guaranteed through basis to all the export buyers located at the port or other concentration point. If the cotton were inspected it might be refused shipment. But after it has gone abroad under these terms it is sold and if it does not measure up to the guaranty this will be settled by the payment of an allowance. The shipper has at least disposed of the cotton, whereas, if it had not been guaranteed through, he would still have left in his hands to dispose of, those bales not accepted for export.

According to New Orleans rules, cotton sold landed at mill points in the United States is subject to the rules obtaining in the section of the destination of the cotton.[23]

[21] Legrand v. Parker, arbitration decision, promulgated October 9, 1919.
[22] Rule 29 governing f. o. b. business, etc., Houston Cotton Exchange and Board of Trade, 1922-23, p. 77.
[23] Rule 29. Ibid.

Section 10. Call transactions.

Buyer's call.—A large part of the export business, as well as a considerable proportion of the buying of the domestic mills, is done on either buyer's or seller's call. Mills very largely use the buyer's call basis. Mill A consumes, let us say, 12,000 bales of cotton per annum, or approximately 1,000 bales per month. Late in December the mill's buyer concludes that "the basis," meaning the difference between the spot and future prices, is sufficiently narrow for him to obtain a six months' supply of cotton. For the purpose of illustration it may be assumed that the mill has no goods sold and that it requires strict middling inch staple cotton. Negotiations are opened with a cotton merchant, and the mill finally buys from him a six months' supply, or 6,000 bales strict middling inch-staple cotton, to be delivered 1,000 bales per month from January to June, inclusive, at 100 points on May New York future contracts. Under this arrangement the mill has the privilege of fixing the price on the cotton any time until the delivery month.

At any time after the contract is made the mill buyer calls up the cotton merchant and says, "I have sold goods enough to cover 1,000 bales of this cotton. Fix the price on 1,000 bales." The seller thereupon immediately buys 10 May contracts, and the price to the mill is the price at which the 10 May contracts were purchased, plus 100 points, or 1 cent a pound.

If during the life of the contract the basis advanced to 200 points on May contracts, New York, for strict middling inch-staple cotton, the mill would have a desirable contract, since it has purchased cotton at 100 points on May, or, at a cent a pound, or $5 per bale cheaper. The seller, in the event that he has not bought the cotton at the time he made the contract is the sufferer to the extent of $5 per bale, since he must deliver the cotton at the price at which he sold, i. e., 100 points on the New York future.

Seller's call.—In seller's call Mill A sells goods equivalent to 1,000 bales of cotton and wishes an immediate hedge. In this event its buyer does not attempt to buy the actual cotton at once from a cotton merchant, but buys through his broker 10 May contracts, New York. He then arranges to buy 1,000 bales of cotton from a cotton merchant at, say, 50 on May and gives the merchant "the call," by which is meant the right to sell out the mill's future as the merchant buys in the actual cotton in order to fix or establish the price. Under this type of transaction, therefore, the mill's price is fixed at the cost of the future plus 50 points (one-half a cent) a pound. If the future advances, the resultant higher price paid the cotton merchant for the cotton is compensated by the profit on the sale of the future bought by the mill. Vice versa, if the future declines, the lower price paid for the spot is offset by the loss on the future. The important point is that under this arrangement and regardless of price fluctuations the mill knows exactly what its cotton is going to cost.

For example, the mill buys 1,000 bales of May futures in January at 30.75 cents and buys from a merchant 1,000 bales of middling inch staple for delivery at 75 points on May, giving up to the merchant the name of the broker through whom it bought these futures. Ten days later the merchant buys 500 bales of spots and thereupon sells out 500 bales of the mill's futures at say 30.50 cents. Five days later he purchases the balance of the spots (500 bales) and closes out the remaining 500 bales of the mill's futures at 30.80, or an average price for the 1,000 bales of futures of 30.65 cents per pound. For the first lot of cotton the mill pays 75 points on 30.50 per pound and for the second lot 75 points on 30.80 or 31.25 cents and 31.55 cents a pound, respectively, and an average price for the 1,000 bales of 31.40 cents. In addition, the mill bought 1,000 bales of futures at 30.75, which were sold for its account by the merchant, 500 bales at 30.50 and 500 at 30.80, or an average of 30.65 and a loss of 10 points. Adding this loss to the cost of the spot cotton (31.40), the net cost of the cotton to the mill is 31.50 cents per pound. This is the same as the price the mill paid for the futures (30.75 cents) plus the 75 points it agreed to pay the merchant for the cotton.

Section 11. Mill buying.

Function of the merchant.—Mills or other consumers with specific requirements of grade and staple to meet rarely buy from factors. Cotton from the country is not, as a rule, in "even running bales" as to grade and/or staple, but shows considerable variation in one or both respects. Ordinarily, therefore, the mill does not search the factors' tables, nor go back to the farmer to obtain a supply of cotton adapted to its requirements. Instead, it goes to a merchant and, in general, mills buy from merchants, either directly or through brokers. If located in the cotton-producing section the mill may take cotton from the producers in the neighborhood, or occasionally from a cooperative association. Similarly, the mills may buy from local brokers, but brokers in the neighborhood of the mills are frequently, if not usually, the representatives of shippers. Some of the larger merchants have their own agents under their own names in the mill sections, but agents of shippers sometimes do business under the form of commission brokers in the mill districts.

The classification of cotton according to the requirements of the mills is primarily the function of the dealer or the cotton merchant. It is not the function of the factor or the commission merchant to assemble cotton according to the specified types or classifications. He receives whatever cotton may be shipped to him by the planters, country merchants, or interior buyers who purchase the cotton at the point of origin and forward it to him for sale to the dealers and shippers. The dealer or shipper is the man who must find an ultimate market for the cotton and who must provide the user with the grade, staple, and character of cotton suitable to the user's needs, and who must be able to bring together a sufficient number of bales equal to a given type or description to satisfy his customer's requirements.

Sources and bases of spot purchases.—The sources from which the mills obtain their cotton requirements show considerable variety, depending upon numerous conditions and circumstances. Several of the southern companies visited by agents of the commission buy a considerable quantity of their cotton directly from the producer, and this method is also employed by some northern companies which operate southern mills. Customarily this is wagon cotton which has been ginned, but in a few cases the mill may operate a gin and buy

cotton in the seed at this gin. This was the case, for example, with one northern company operating a southern mill.

Where a southern mill is located in a small country town, it is frequently the practice for it to take all the cotton coming into town. One large southern company operating several mills makes this a general rule, and other mills also follow this policy. In some cases this method of buying has not, apparently, proved to be very satisfactory.

In the case of at least one southern mill visited buying from growers had been discontinued because the mill found that it was unable to get exactly what it wanted by this method, and in consequence was buying altogether from dealers. Mill buying locally, however, is of considerable importance, as appears from the following statement taken from a study of cotton financing made by the Federal Reserve Board:

> Mills which are located in the large primary markets buy considerable quantities of their cotton from the growers in the local market. The importance of local buying is shown by the fact that mills reporting from several cities in South Carolina—Spartanburg, Anderson, and Pacolet—estimate that 80, 60, and 30 per cent, respectively, of their cotton is bought directly from growers who sell in those markets and through agents who are sent into the markets of the surrounding territory. Some mills in North Carolina, Georgia, Alabama, and Mississippi report that they buy large quantities of cotton directly from the producers within their territories.[34]

Aside from local purchases the southern mills buy from dealers and merchants. For example, a North Carolina mill buys entirely on sample and very nearly all through one dealer in Charlotte, N. C., and a spinning interest in the same State operating several mills also obtains its cotton through a single agent, except that it takes the cotton the farmers bring in at the towns where it has plants. A Georgia mill has a working understanding with three firms of merchants to furnish it with cotton of the grades it needs, and these dealers are communicated with when orders for goods are received. Another southern mill buys from dealers and spot brokers in some years chiefly on sample, and at other times largely on description, depending on the character of the crop and other conditions. One Georgia mill stated that it got some of its cotton from factors, but this apparently is rather exceptional.

The northern mills buy chiefly on type or description through local brokers, or merchants in Boston, Fall River, or New Bedford. One New Bedford mill, however, buys through buyers and brokers in the South on type in even-running lots. An important New England interest buys from seven or eight Boston houses, usually on its own types. The brokers train the shippers into what the mill in question wants. If the broker does not deliver cotton suited to the mill's requirements the mill changes brokers. Other northern interests also buy on their own types and claim to have their brokers thoroughly educated as to the cotton which they require. In some cases the local New England houses through which cotton is obtained are brokers and in others they are merchants. Description as well as type sales are also used. Purchases of cotton for two Maine mills, for example, are made on both bases.

[34] Carson: Financing the Production and Distribution of Cotton. Reprint from Federal Reserve Bulletin, 1923, p. 41.

Section 12. Outright purchasing.

Effect of sales in advance.—It was found to be the policy of several of the cotton mills visited to purchase their cotton outright and without resort to either buying "on call," or the futures market; and this method is designated throughout this discussion as "outright buying," or outright purchasing. While such a policy is apparently more characteristic of southern than northern mill companies, some of the latter also use this method to a considerable extent, particularly where they operate a southern mill or mills. In some cases outright purchasing is doubtless influenced by the fact that the mill does not usually buy cotton in anticipation of orders for goods, but first sells the goods and then purchases the cotton to manufacture them. In such cases, the cotton is often bought outright at a fixed price. If the order is for goods to be delivered at some future date, the cotton to make the goods is also purchased for forward delivery, but the price is fixed at the time the contract is entered into. In other words, the mill attempts merely "to keep covered all the time."

Though a policy of nonanticipation of orders may be an influential factor in producing outright buying, too much weight should not be attached to it. The information obtained clearly indicates that the practice of selling goods before buying cotton is not rigidly adhered to, but that on the contrary, it is in practice subject to frequent exceptions and variations depending upon a number of circumstances.

Thus, a North Carolina mill employing the foregoing method admits that it occasionally buys a little in advance, though not much, and a Georgia mill states that if it considers that the price is extremely low it sometimes buys outright for anticipated future requirements. An important northern spinning interest states its buying policy as follows, quoting from the report of the interview:

> We try to buy cotton for our mills with reference to forward sales of finished goods; also at different times of the year we buy in relation to the cotton crop, as, for example, the desirable grades are exhausted in the late spring and we try to supply ourselves up to that time so as to be able to carry ourselves over into the new crop.

This concern neither buys on call (Chap. II, sec. 10) nor uses the futures market for hedging.

In certain cases, moreover, mills pursuing a general policy of selling goods in advance of manufacture and buying cotton outright may also buy a little on call. For example, a very large Georgia mill states that it has never bought on call very much, although it uses this method to some extent.

Without orders in advance.—For certain northern and southern mills, outright purchasing policies, as well as failure to use either call buying or the futures market, are apparently independent of the sale of goods in advance. One large New Bedford mill, which neither buys on call nor employs the futures market, states that it is "our general policy to carry about 9 to 12 months supply in advance." Another northern mill belonging to a very important group of New England spinners is accustomed to purchase a considerable portion of its year's requirements in advance. It does absolutely no hedging and its treasurer states that he is frequently in the position of a speculator, as everything is bought spot and fre-

quently before goods have been sold. A South Carolina mill, which buys mostly outright, does not wait for orders for goods in order to buy cotton. Knowing about what it is going to need, it buys "in the months of October, November, and December as far as possible." This mill does on occasion use the futures market, though not very much. No call buying is done, however.

Effect of staple.—The reason that some mills buy outright in advance of orders and employ neither call buying nor the futures market is, in some instances, to be found in the character of the product manufactured and the cotton required therefor. Certain mills, for example, manufacture chiefly high-grade cotton goods, such as lawns, organdies, fancy dress goods, cotton and silk mixed goods, sewing threads, yarns for lace curtains and warp yarns for fine cloth, and the like. Such mills use only long-staple cotton which it is impossible for either mill or merchant to hedge satisfactorily.

The long-staple cotton which they employ always carries a good premium and the price of the basis cotton may very well go one way, while the premium would go another. In addition, the price of the longer staples may be so high that it would require nearly two bales of basis middling cotton to hedge one bale of long staple. It is stated that it is not as important for mills manufacturing such lines of goods to obtain protection by hedging as it is in the case of producers of sheetings, print cloths, and cotton goods of a similar character. In the case of these products the cotton is the big factor in the cost and a change of 2 or 3 cents a pound in the price might entirely wipe out the profit.

In the case of mills making fine goods the labor and work put into the product is much more important than the raw material. If the cotton cost, say 40 cents a pound, the total cost would, perhaps, be $2 a pound, so that a loss of 5 cents a pound on the cotton can be absorbed without affecting the total cost to any great extent. In consequence, these mills feel that they can buy their cotton outright. Other information would indicate that the question of staple is a factor influencing outright buying in the case of other mills.

Early buying.—It is the policy of several mills buying outright in anticipation of their future requirements to purchase heavily when the crop first comes on the market. One South Carolina mill using exclusively long staple cotton keeps bought ahead for a considerable period. It buys cotton as soon as it comes in in the fall and attempts to secure its supplies before December 1, if possible. In October, 1922, for example, this company had already purchased its supplies running into October, 1923. This mill has excellent warehouse facilities and allows the seller to ship in the cotton whenever it suits him. A North Carolina mill also using long staple cotton does most of its buying (about two-thirds) generally from September to December in anticipation of orders for goods and takes a chance on the other third. Similarly, an important New Bedford mill as a general policy carries from a 9 to 12 months' supply of cotton.

Reasons for early outright buying.—Two prime reasons are assigned by these mills for their policy of heavy outright purchasing in the fall of the year without hedging and without orders for goods. The first of these reasons has to do with price, the second with quality.

Certain southern spinners apparently work on the theory that when the bulk of the cotton is coming on the market, prices will be lower on the average than at later seasons, and the opinion is expressed that by pursuing this policy "better" (lower) prices have been obtained on the average than could have been procured by trying to follow the market. Certain of the northern mills, on the other hand, emphasize the fact that better cotton is obtainable when the crop first comes to market, rather than after it has lain around in the warehouses and been handled and picked over several times. In consequence, their heavy outright buying in the early part of the crop year is due largely to their effort, as one manufacturer says, "to get the best picking."

In occasional instances the policy of outright purchasing may be at least partially dictated by hostility to the cotton exchanges, and the system of future trading. The attitude of one important mill may be taken as an example. This mill uses chiefly a long staple cotton and buys outright several months' supply in the fall of the year. It never uses the futures market, nor does it buy on call. The treasurer is bitterly opposed to future trading and believes that every one from grower to consumer, except the speculator, would be benefited by the abolition of the exchanges. He denies emphatically that the fact that he uses long staple cotton constitutes a reason for his not hedging, asserting with equal emphasis that he would not hedge even if he used short staple.

Apparently there is a somewhat greater tendency to outright buying among the southern mills than is to be found among the northern. The methods of buying reported, as well as the statements of spinners and others, would seem to indicate a general tendency for several of the southern mills to buy spot without hedging, or in some cases on buyer's call, whereas, in the case of the northern mills transactions are perhaps somewhat more often either on buyers' call, or hedged in the futures market. It is probable that many mills do some outright buying. In frequent cases, situations and conditions develop which make it desirable for the mill to buy outright even though this is quite contrary to the policy which they usually pursue. For example, the treasurer of a mill controlled by one of the important northern spinning interests, states that their general policy is to sell goods and cover by purchases of futures, except when the cotton market is very low. When such a condition prevails the mill goes out and buys the cotton, figuring that the interest and carrying expense up to the time of consumption will be more than offset by the difference in price. Such purchases, of course, are not covered by future sales.

A southern mill interest of importance asserts that in buying their cotton they have tried to use that method which would be as nearly free from speculation as possible. Buying on call gives them this protection, but when business is bad and they are unable to obtain orders, it has no particular advantage. In consequence, when their business consists of small orders for delivery in the near future, they buy cotton outright as soon as they get the order.

While outright buying is probably employed on occasion, therefore, by many mills, there are a great many establishments where such purchasing is less a matter of general policy than an exception thereto, these mills as a rule buying cotton either on call, or hedging in the futures markets.

Section 13. Mill hedging.

Buying hedges.—The use of the futures markets by some mills is confined to buying hedges, and selling hedges are not employed. In other words, the mill hedges sales of finished goods by buying cotton futures, but if it buys spot cotton it does not sell futures against such cotton. In some instances, this may be due in part to the fact that the concern does not buy any appreciable volume of spot cotton without orders, unless cotton is very low in which case having purchased they do not consider it necessary to sell hedges against it, since they expect it to advance. The following statement of the treasurer of a mill belonging to a very large northern spinning group is of interest in this connection:

Q. Do you employ the cotton futures markets for hedging, and if so, how?—A. Yes; for protection.

Q. Do you buy futures against sales of cloth?—A. Yes; unless cotton is very low.

Q. Do you sell futures against purchase of spot cotton?—A. No.

* * * * * * *

Q. To what extent do you employ the futures markets for hedging?—A. It varies. When cotton is very low we buy and do not carry a hedge against it.

Hedge purchasing may also be used in certain cases, because the contract involved is of considerable size. Says a Georgia mill:

If we get an order for goods to be delivered in October, December, and January, say, that will require 2,500 bales of cotton, we can not go out in the market and in a single day possibly buy that 2,500 bales of exactly the grade and staple we require without unduly disturbing the market. So we wire our broker to buy futures for us to the extent of 2,500 bales for those delivery months and then as we pick up the actual cotton of the desired grade and staple we take up our futures.

The use of buying hedges (buying futures against goods sold) by some concerns has decreased in recent years, owing to changes in the methods of selling goods. The period of forward selling of goods has shortened considerably since the war and the sale of the finished product is in the case of various mills very largely a hand-to-mouth business with the result that the mills buy more largely outright. One northern mill reports that before the war it offered for six months or more in advance but that this required the tying up of too much capital to carry its supply of cotton. In consequence it hedged those contracts on the exchange, and got along with less capital. Since the war prices have fluctuated so much that this concern does not offer goods for more than three months in advance, and buys the cotton to make the goods as soon as it obtains an order.

Selling hedges.—In the early part of the marketing season when the crop is coming on the market rapidly, southern mills sometimes buy cotton in advance of orders for goods to get the grade and staple they are likely to need, and also in order to get it from near-by points, thus saving in freight, handling, and other charges. Inasmuch as in this case the mill does not know for what it will be able to sell goods, it may then sell futures as a hedge against a decline in the price of the cotton. As contracts for goods are obtained to cover the cotton the futures are bought back, thus canceling the hedge.

An important northern mill interest, usually buying cotton on call, sells futures as hedges against the supply of cotton for its southern mill, this cotton being purchased directly from the local merchants. Call buying from little local merchants is impracticable, so that at this point the mill takes the cotton as fast as it is raised in the neighborhood and then uses the future market to protect itself, i. e., by selling futures against these spot purchases.

Buying and selling hedges.—Many mills, perhaps the majority of those using the futures market, employ both buying and selling hedges depending upon market and other conditions. One of the executives of a large Fall River mill states this policy as follows, quoting from the agent's report of the interview:

If we sell large quantities of goods in the spring when desirable spot cotton is hard to find, we might buy New York futures against the goods that we have sold. On the contrary, if we are anxious to secure a full supply of desirable cotton during the early fall and winter when our cotton is available and have not sold our goods, we would use the market by selling against that proportion of our stock not sold in goods.

Combination methods.—The buying policy of many mills, both North and South, but particularly the former, is to purchase according to the method which seems to avoid speculating in the largest possible degree, rather than to follow any one particular method or methods. Mills will be found which, depending on conditions, will employ either buyer's or seller's call or purchase outright without hedging, while under other conditions all goods sold will be hedged by the purchasing of cotton futures, and in yet other situations all cotton purchased will be immediately hedged by future sales.

Section 14. Mill buying "on call."

Seller's call.—Comparatively few of the mills visited which used call buying employed seller's call. This method, however, may and sometimes is used to cover very large contracts for goods. An order requiring say 10,000 to 15,000 bales of cotton is too large to be handled by a small spot cotton dealer, though it could be bought from a large one. In the event that the concern desires to buy the cotton from the smaller spot merchants it may buy futures to cover the required quantity of cotton and then parcel out the purchase of the actual cotton among the small spot brokers. As the latter are able to pick up the cotton in tenderable lots (100 bales), they notify the company and sell an equivalent number of future contracts for the company's account, fixing the price of that much of the cotton.

One of the objections raised to the use of seller's call is the fact that in such a case the mill carries the hedges and this involves the cost of commissions, interest on margins, etc., whereas, on buyer's call the purchaser is not involved in this expense.

Another objection to seller's call made by a southern manufacturer is as follows, quoting from the agent's report of the interview:

I can't think of a situation in which the mill man would want to use seller's call. He would not know how to advise his salesmen. To illustrate, we may want to be assured of a supply of cotton of a certain grade and staple, but as yet have no contracts for goods. We make inquiry of one of the big houses and are told they will furnish us this cotton at say 200 points on December. If that seems to us a fair basis we accept. Then when our salesman has an order and wires us for a price we look up the price of December, add the 200 points and wire him to base his order on cotton at that price. If the order for goods is placed we wire our cotton merchant immediately, calling the cotton and that fixes the price. If we had to depend on our merchant fixing the price as he could get the cotton we would be working blindly and could not safely advise our salesman.

Buyer's call.—One mill uses buyer's call if the crop of any particular type or character is quoted as being short, and the price is prohibitive. In such a case this mill buys on call for deliveries at certain dates

and makes the call when the price is such that it will result in a profit. The price of the month on which the call is based is also considered in quoting customers prices on orders for yarns and after the sale is made the cotton is called as near that price as practicable. A southern spinner does not use buyer's or seller's call because, though many spinners do buy that way, he can not tell what the cotton is going to cost at sometime in the future, whereas, he does know what it will cost now.

Section 15. Cotton trade borrowings.

According to schedule [25] returns to the commission, New York is the most important source of cotton loans. The volume of borrowings of reporting concerns engaged in the spot and futures cotton business from this financial center was three times as great as from New Orleans, which is the second largest money market for the cotton trade.

The following table shows the yearly average borrowings of 440 concerns comprising a considerable proportion of the organizations engaged in the spot and futures cotton business for the period 1919-20 to 1921-22. The details for each year, on which this table is based, will be found in Appendix Table I:

TABLE 7.—*Approximate yearly average maximum borrowings, by cities, of 440 spot and future cotton concerns, 1919-20 to 1921-22* [1]

City	Rank	3-year period ending June 30, 1922		
		Average maximum borrowings	Per cent of total borrowed	Number of concerns reporting borrowings
New York	1	$46, 392, 336. 86	38. 09	83
New Orleans	2	13, 063, 172. 55	10. 72	42
Boston	3	8, 357, 311. 44	6. 86	17
Memphis	4	5, 976, 637. 16	4. 91	40
Savannah	5	5, 852, 887. 69	4. 81	25
St. Louis	6	4, 939, 153. 79	4. 05	13
Norfolk	7	3, 924, 864. 27	3. 22	14
Dallas	8	3, 292, 163. 73	2. 70	23
Philadelphia	9	2, 890, 866. 67	2. 37	3
Galveston	10	2, 153, 083. 33	1. 77	9
Total, 10 cities	------	96, 842, 477. 49	79. 50	269
All other cities [2]	------	24, 967, 218. 18	20. 50	171
Total	------	121, 809, 695. 67	100. 00	440

[1] Based on Appendix Table I. [2] Includes $5,779,147.16 from Japan and England.

The figures in Table 8 were compiled from returns by a relatively large number of concerns (403) which handled spot cotton and the figures in Table 9 by a comparatively small number of concerns (37) which reported no spot sales on their own account. These tables are presented below, the combination of the figures in the two tables giving the results shown in Table 7.

Table 8, which follows, shows for different cities the yearly average maximum borrowings of concerns which handled spot cotton for the three-year period 1919-20 to 1921-22. This shows a percentage of borrowings from New York slightly smaller than that for all concerns, and about the same relative position for New Orleans as in the case of all concerns (see Table 7). The detailed figures by years, on which Table 8 is based, will be found in Appendix Table II.

[25] These schedules asked for the maximum amounts borrowed from the five largest lenders in each of the three years 1919-20 to 1921-22. In the case of a few concerns money may have been borrowed from more than five lenders during the same year so that the results shown are at least somewhat smaller than would be the case if all the borrowings had been asked for. It is believed, however, that they do represent with approximate accuracy the relative position of the different cities shown in the following tables.

TABLE 8.—*Approximate yearly average maximum borrowings, by cities, of 403 concerns handling spot cotton, 1919-20 to 1921-22* [1]

City	Rank	3-year period ending June 30, 1922		
		Average maximum borrowings	Per cent of total borrowed	Number of concerns reporting borrowings
New York	1	$38, 368, 264. 90	36. 34	74
New Orleans	2	11, 937, 505. 88	11. 31	37
Boston	3	8, 323, 978. 11	7. 88	17
Savannah	4	4, 787, 333. 33	4. 53	21
Memphis	5	4, 137, 691. 03	3. 92	34
St. Louis	6	3, 837, 716. 67	3. 64	12
Dallas	7	3, 291, 330. 39	3. 12	22
Philadelphia	8	2, 890, 866. 67	2. 74	3
Norfolk	9	2, 448, 614. 27	2. 32	13
Galveston	10	2, 153, 083. 33	2. 04	9
Total, 10 cities	------	82, 176, 384. 58	77. 84	242
All other cities [2]	------	23, 395, 067. 21	22. 16	161
Total	------	105, 571, 451. 79	100. 00	403

[1] Based on Appendix Table II.
[2] Includes $5,779,147.16 from Japan and England.

Table 9, which follows, gives the yearly average maximum borrowings by concerns which reported no spot sales on their on account for different cities for the three-year period 1919-20 to 1921-22. This shows that practically half the borrowings by this class of concerns were from New York and more than one-tenth from Memphis.

The detailed figures by years on which this table is based will be found in Appendix Table III.

TABLE 9.—*Approximate yearly average maximum borrowings, by cities, of 37 cotton concerns which reported no spot sales on their own account, 1919-20 to 1921-22* [1]

City	Rank	3-year period ending June 30, 1922		
		Average maximum borrowings	Per cent of total borrowed	Number of concerns reporting borrowings [2]
New York	1	$8, 024, 071. 96	49. 41	9
Memphis	2	1, 838, 946. 13	11. 33	6
Norfolk	3	1, 476, 250. 00	9. 09	1
New Orleans	4	1, 125, 666. 67	6. 93	5
St. Louis	5	1, 101, 437. 12	6. 78	1
Savannah	6	1, 065, 554. 36	6. 56	4
Boston	7	33, 333. 33	. 21	(3)
Dallas	8	833. 34	. 01	1
Philadelphia	------	------	------	------
Galveston	------	------	------	------
Total, 10 cities	------	14, 666, 092. 91	90. 32	27
All other cities	------	1, 572, 150. 97	9. 68	10
Total	------	16, 238, 243. 88	100. 00	37

[1] Based on Appendix Table III.
[2] Some concerns borrowed in more than one city. In such cases the concern is counted under the city in which the borrowings were greatest.
[3] Included under Savannah, in which the borrowings were greater. See note 2.

Section 16. Cooperative marketing of cotton.

Growth of the cotton cooperative marketing movement.—The cotton cooperative marketing associations of the present day are not the result of a growth covering a long period. Practically all, if not all, such associations now in existence have been organized since 1921.[26]

There were, however, a number of earlier attempts made by cotton growers to market their crop cooperatively. According to the Federal Reserve Bulletin[27] the "earliest attempt to market cotton cooperatively in the United States was made in 1872, when the Mississippi Grange placed a sales agency in Liverpool that operated for several years. About the same time the Alabama Grange established an agent in New York, the Georgia Grange in Atlanta, and the Louisiana Grange in New Orleans. These operated for several years, but were discontinued with the decline in the grange movement." According to this same publication, other attempts to establish cooperative cotton marketing associations were unsuccessful until very recently.

Reasons for recent development.—Probably the most important reason for the renewed activity in organizing cotton cooperative marketing associations was the depression of 1920–21, when cotton fell from considerably over 40 cents per pound to the neighborhood of 10 cents per pound. Closely allied to this price decline was a general dissatisfaction with the system of cotton marketing, the producers, in short, believing that the middleman's profit was too large as compared with the services performed.

A plan of organization was evolved for the Oklahoma association in 1920, and in April, 1921, the organization was completed and steps were taken to handle the 1921 crop. The Arizona,[28] Mississippi,[28] and Texas associations followed soon after Oklahoma. In 1922, 5 more cotton cooperative marketing associations were organized and 4 in 1923.[29]

Typical organization.—Most of the important cotton cooperative marketing associations are State organizations under the local laws governing cooperative associations. They are nonprofit organizations and do not have capital stock. The officers and directors are usually elected from the membership and consequently are growers, since it is required that only growers of cotton may be members of the association. Under the laws of several States at least one member of the board of directors must be a representative of the general public and is appointed by the governor of the State in question.

These associations handle cotton and no other commodities. Each member agrees to turn over to the association all cotton raised by him.

These agreements are usually for five years and are designed to protect the association. In this connection it is of interest to note that the associations have had comparatively little trouble with members refusing to deliver, or, in other words, to live up to their contracts. It seems to be the policy, at least of most of the associations, to obtain compliance with these marketing agreements by persuasion where possible, and to avoid legal process. No fears are apparently entertained that the agreements would be held illegal,

[26] Carson: Financing the Production and Distribution of Cotton, p. 58; reprinted from the Federal Reserve Bulletin.
[27] Ibid., p. 57.
[28] Staple cotton association.
[29] Carson: Op cit., p. 58.

since they are practically identical in form with those of the tobacco growers' marketing associations which have been upheld by numerous State courts.

The cotton cooperatives have endeavored to employ competent cotton men to conduct the affairs of the several organizations. Rather elaborate systems are in use also to maintain the interest of the memberships in their organizations and to obtain new members.

There are also other associations of producers which handle cotton, but these are usually small local organizations and, furthermore, are organized for other purposes as well as that of marketing cotton.

It is claimed that at least 1,000,000 bales of cotton were marketed through associations of growers in 1923. Returns of the nine principal cooperative associations to the commission show for the crop of 1922–23 sales of 691,000 bales. The movement has grown steadily since the organization of the Oklahoma association in 1921, and practically every association reports an increase each year in both membership and bales handled. The cotton cooperative associations are financed in a large measure by loans from commercial banks secured by warehouse receipts. Large advances have also been made by the War Finance Corporation. Another source of funds has been the members of the associations. The South Carolina Association has borrowed over $1,125,000 at one time from its members. In this connection it is interesting to note that it has been the association and not the members that reduced this amount, the latter being anxious for renewals.

This borrowing from members suggests that steps in the direction of cooperative credit organizations by the cotton cooperatives might place them in a stronger financial position, render them largely independent of the banks, and result in a considerable saving in their cost of distribution.

Section 17. General sales methods.

State associations.—The various State cooperative cotton associations have their own sales organizations. While the ultimate desire is to build up a "direct to the mill" business, the officers of several of the associations stated that they realized that this could only come with time. At present the cooperatives sell to any one paying the desired price and their customers include the general cotton trade, as well as spinners. There is one important obstacle preventing the cooperatives from doing a much larger direct to mill business. This is the inability of many of the associations to sell on buyer's call, which is, of course, a method of purchasing followed by many spinners. The cotton cooperatives do not hedge as a rule. Such associations are composed of farmers who are interested in developing the so-called system of "orderly marketing"; i. e., comparatively even distribution of sales through the crop year, which is believed by them to result in better average prices for spot cotton. To hedge under such circumstances would defeat the ends sought, since any increase in average spot prices would, according to the theory of hedging, be offset by losses in closing out the hedges. It is stated that since sales on buyer's call would necessitate such dealings, this method of selling cotton is not open to the associations. The cooperatives, however, hope to overcome this disadvantage and claim that when mills become acquainted with the superior service

which the cooperatives offer they will gladly forego the advantages of buyer's call.

American Cotton Growers' Exchange.—The 12 State cooperative cotton associations are organized into a central body known as the American Cotton Growers' Exchange. This latter organization is in effect a sales agency for all the State associations and has branches throughout the southern cotton manufacturing sections, in New England, and abroad. It should not be understood that the local State associations do not sell cotton. As previously stated, each organization has its sales department and the decision as to all sales rests with the individual organization. The American Cotton Growers' Exchange, according to C. B. Howard, its general sales manager, is—

> a clearing-house office for sales for all of these States, you might say, and having salaried men in Liverpool, Bremen, Havre, Boston, Carolina centers, and connections with merchants or brokers in practically all other cotton markets of the world, great cotton buying centers.
>
> If any cotton for Texas or for Georgia which is sold in New England, or across the water, goes through my office, it is to coordinate the selling activities of these 12 States, in order that the 12 States will, so far as it is possible to avoid it, not compete with each other in the sale of the cotton that is delivered them by their membership.[31]

Section 18. Attitude of trade toward cooperative cotton marketing associations.

The cotton trade as a whole is not antagonistic toward the cooperative marketing movement. The general impression in the trade seems to be that everything should be done to help the grower of cotton, and, if cooperative marketing will have this result, then it is to be encouraged.

There are, of course, many cotton dealers who oppose the cooperatives. The usual complaint against these organizations is that they are too inefficient and expensive, and that their overhead is far too large as compared with that of the regular merchants. Another ground for opposition of some dealers is that the cooperatives are trusts and consequently to be condemned. Some merchants base their opposition on the allegation that the member of the cooperative loses all initiative in the sale of his cotton, since he must turn it over to the association as soon as possible and be satisfied with an average price.

These arguments against the associations are answered by them as follows:

> The newer associations admit that their overhead is higher than it should be, but hold that it is not necessarily more per bale than that of the regular trade. Furthermore, they contend that the merchant exacts a larger toll per bale than do the cooperatives, and when the organization has been entirely completed and the expense of establishing the business is at an end, the overhead will be much less than at present and decidedly lower than that of the regular trade.

The actual results for 1922–23 are shown in chapter IV.

Section 19. Prospects for further cooperative development.

The representatives of the cooperative associations are quite sanguine of the future. They maintain that the experimental stage has been passed successfully and that the associations are here to stay. They claim that the economy of operation of their organizations is such that it is bound to prevent the failure of the movement.

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[31] Hearings, Pt. II, p. 368.

Some members of the cotton trade are not so optimistic as to the future of the cooperatives. They point out that the associations have been very fortunate in that since their organization cotton prices generally have been moving upward. A year of falling prices, it is claimed, will be very hard on, if not disastrous to, the associations, since the average price will be so much lower than the high levels for the year; and the members, it is contended, will not be satisfied, since they will feel that had they had the opportunity of selling their own cotton they would have done much better.

The commission is of the opinion that the cooperative marketing of cotton has been eminently successful thus far, and that it is not doomed to failure in periods of low prices, if wisely managed. It is believed that this movement not only will succeed but should succeed.

Section 20. Physical handling of cotton.

In the description of the physical handling of cotton at terminal markets, New Orleans has been taken as the basis for the discussion. This is because of the fact that at this market a more complete and comprehensive survey of methods and practices was made than was attempted at any other city. References are made from time to time to practices prevailing in other markets.

A careful survey was made by the agents of the commission of the entire system of physical handling prevailing in the New Orleans market prior to August 1, 1922. On that date a new system of handling, subsequently discussed, was put into effect in that market. The principal difference between this "new" system of handling and the older practice is that under the former a negotiable single bale warehouse receipt is issued for each bale of cotton stored, the bale being sampled and weighed by the exchange, which organization guarantees the inspection and the correctness of the samples.

In general, however, and with the exceptions just noted, physical handling methods are much the same under both the old and new systems, the differences between the two being largely a matter of the number of times the various processes involved are performed.

Section 21. New system compared with old system at New Orleans.

Under the system of handling cotton which prevailed at New Orleans prior to August 1, 1922, costs, it was claimed, had become altogether too high. This was because there was duplication and reduplication of sampling, weighing, classing, and handling in and out and the costs incident thereto every time a bale changed hands. As long as there was no system of exchange inspection each buyer insisted upon exercising his prerogative of sampling, classing, and weighing the cotton, with the result that each of these processes might be gone through two, three, four, or more times on the same bale of cotton with consequent multiplication of expenses. It was argued that this was unduly obstructive of spot trading in cotton and that the expenses involved in this duplication of handling charges for the same service were decreasing the receipts of the market. In view of this the board of directors adopted and promulgated a new set of rules, effective from and after August 1, 1922, governing transactions in cotton sold ex-warehouse and to-arrive. Under these rules all cotton is sampled on both sides, inspected and weighed by paid employees of the New Orleans Cotton Exchange, upon arrival

at the warehouse, and an individual warehouse receipt, together with a nonnegotiable copy, is issued for each bale.

This receipt shows the certified weight, the tag number, the number of bands, and the style of compression of the bale, and has a blank space left for use, if desired, by the United States Board of Cotton Examiners for certification for tender on future contract. A storer may have his cotton stored without this by notifying the exchange of his desire, but if the cotton is transferred where physical handling is necessary it must be sampled, inspected, and weighed as provided above. The exchange certifies the weight and guarantees the correctness of its inspection and reserve samples. A buyer accepts cotton offered by tender of warehouse receipts, without rehandling, resampling, or reweighing, but either buyer or seller may have the bales reweighed if he desires.

The advantages of this system of supervision, from the viewpoint of the cotton exchange, as compared with the methods followed in many other markets and those formerly used at New Orleans have been summarized by a close observer, after the system had been in use several months, as follows:

1. It is more economical, the saving in the cost of receipt and delivery being estimated at about one-third.
2. It enables the buyer to class his cotton on reserve samples before ordering it shipped, eliminating the cost of ordering out and back cotton which he does not wish to ship.
3. It enables the buyer to resell on this market without resampling, reweighing, or reinspecting, by merely delivering the warehouse receipts.
4. It prevents congestion at the warehouse, which was common under the old system, as cotton is now generally ordered out for shipment instead of being ordered out to be resampled and reweighed and probably re-stored.
5. The buyer receives the warehouse receipts for the cotton the same day it is paid for.
6. It enables the cotton factor or commission merchant to know the weight of cotton on its arrival and he may thus more intelligently advance money on consignments.
7. It enables the factor to render an account of sales to the consignor within seven days after the cotton is sold. Under the old system it took from 10 to 60 days.
8. As cotton is sampled on both sides and exhibited on the lower side it prevents rejections by the buyer when the cotton is received.
9. It has a decided advantage in the preparation of cotton for tender on future contract because it may be certificated on the reserve samples without being turned out for reweighing and resampling as under the old system.
10. As the sampling, inspecting, weighing, and marking are all done by employees of the exchange, the integrity of the work is assured.

Under the present rules the exchange guarantees its reserve samples while they are in its possession and no rejections are allowed by the buyer if the samples have been fairly exhibited and if the duplicate held by the exchange is equal to the seller's sample. Any bale which shows a difference of more than one full grade between the samples taken from opposite sides or which has been reported as irregular by the exchange must be sold as such.

The rules governing the storage and physical handling of cotton are intrusted to the committee on supervision and deliveries for enforcement. Responsibility for detail administration of those relating to the proper storing of the cotton and the protection of it from theft or waste is placed on the supervision and levee inspection department of the exchange, while responsibility for inspection for condition, sampling, tagging, weighing, and other handling is placed

on the spot-handling department. The chiefs and personnel of these departments are paid employees of the exchange who have been chosen because of special training or qualification for performance of the duties assigned to them.

Section 22. Warehousing at New Orleans.

There are three classes of plants used for the storing of cotton in New Orleans—railroad, private warehouses, and the public warehouse of the board of commissioners of the port of New Orleans.

Nearly all the cotton coming to the New Orleans market comes by rail, and on arrival, if shipped on consignment, the railroad company notifies the consignee and prepares a manifest showing point of origin, consignor, number of bales, markings, charges, and location in the railroad yards. This manifest is given to the clerk who receives the cotton for the public warehouse or to the drayman who hauls the cotton for a private press, and the cotton received is checked against it. Each bale is inspected in the head by an employee of the exchange and tagged and listed. A licensed sampler of the exchange draws a 6-ounce sample (about 3 ounces from each side) to be sent to the storer and an 8-ounce sample (about 4 ounces from each side) to be held by the exchange as a reserve sample. The cotton is then weighed by a licensed weigher and placed in storage to await the further order of the consignee. It is stored on the side and if "flat" may be piled four or five bales high in the city presses and very much higher in the public warehouse.

Cotton may remain in storage from a few days to several months and, in rare cases, for several years. For a recent year the average for the "public warehouse" apparently was about four months, but this average period appears to have been longer than that for any of several preceding seasons.

The railroad terminals receive cotton from all owners if it comes in over their lines. Their warehouses are maintained for the convenience of their patrons. They prefer to have cotton move out within a few days and do not care to be considered as warehousemen; as a result their charges are made for space rental and not for storage, and they employ a scale of charges increasing with the length of time the cotton remains in their terminals in order to discourage the employment of their facilities for storage purposes.

Section 23. Warehouses operating under the Federal warehouse act.

Nearly every town in the Cotton Belt is in a sense a market for the grade and staple of the particular locality, even though only a few bales may be sold. Many of the towns, often of rather small size, have privately owned public warehouses with capacities of 1,000 or more bales. A large number of these operate under the Federal warehouse act, and this number is rapidly increasing, as appears from the following table. These figures can probably be regarded as representing chiefly storage at the smaller interior markets. The warehouses at the larger markets are not so likely to be operated under the Federal act, although it is reported that there has been a considerable movement in this direction following a recent large failure.

TABLE 10.—*Capacity of warehouses, in bales, operated under Federal warehouse act in specified States in 1922 and 1923* [1]

State	Capacity May 1, 1922	Capacity Nov. 28, 1923	Increase	
			Quantity	Per cent
Virginia	----------	7,000	7,000	----------
Georgia	194,500	276,200	81,700	42.0
Tennessee	50,100	86,600	36,500	72.9
South Carolina	42,400	344,200	301,800	711.8
North Carolina	51,300	208,900	157,600	307.2
Arkansas	154,700	350,200	195,500	126.4
Louisiana	38,300	90,600	52,300	136.6
Mississippi	375,300	469,300	94,000	25.0
Alabama	134,400	203,300	68,900	51.3
Texas	121,600	77,100	[2] 44,500	[2] 36.6
Massachusetts	30,000	----------	[2] 30,000	[2] 100.0
Oklahoma	11,200	----------	[2] 11,200	[2] 100.0
Arizona	6,000	11,000	5,000	83.3
Missouri	----------	12,000	12,000	----------
Total	1,209,800	2,136,400	926,600	76.6

[1] 1923 figures supplied by the Bureau of Agricultural Economics; 1922 figures from Service and Regulatory Announcements, No. 71, pp. 16–21.
[2] Decrease.

The chief purpose of the Federal warehouse act is to provide a receipt that "will be readily and widely negotiable as collateral for loan purposes," and in furtherance of this purpose it "provides for a system of licensing and bonding warehousemen under conditions that will tend to insure the integrity of the receipts issued by such warehousemen." [32] The Government does not certify to the grade and weight of the cotton stored in the licensed warehouses, this being done by the warehousemen. He is responsible for his receipts and is bonded to the Government for the faithful discharge of his obligations. He selects his own classer and weigher and may have them licensed if he wishes, or they may work without a license, but they must satisfy the department that they are qualified to do the work before a license will be issued to the warehousemen. Inspectors, who are sent around at frequent irregular intervals by the Department of Agriculture, examine samples at random and require resampling in some cases to determine the care with which the work is being done. While it is not required that cotton be classed on arrival, it is classed then unless the storer expressly requests in writing that it be stored without so doing. It must all be sampled on arrival and the samples placed in fireproof vaults which the warehouse is required to have.

Section 24. Warehouse receipts.

Character and purpose.—A warehouse receipt is a written and/or printed statement signed by a warehouseman or by some one authorized by him showing that he holds in storage a certain quantity of cotton or other commodity deliverable on demand according to the terms of the receipt, upon its surrender properly indorsed. The goods may be made deliverable to bearer, to order, or to a specific party, but the receipt is ordinarily negotiable unless it is plainly marked on its face that it is not negotiable. The characteristic of negotiability gives a warehouse receipt wide circulation as collateral

[32] Service and Regulatory Announcements, Bureau of Agricultural Economics, No. 71.

in security for loans if it has been issued under such restrictions as properly to safeguard the interests of the holder. Its value in this respect depends largely on the integrity and financial responsibility of the issuer and the accuracy of description of the goods covered by it. An important purpose of the warehouse receipt is to provide liquid collateral for financing the carrying of the commodity covered on its movement to the ultimate market.

Objections to block or multiple receipts.—Under the rules of the New Orleans Exchange prior to August 1, 1922, a form of receipt was used which covered a lot of any number of bales of cotton not in excess of 100. It contained no description of the cotton except by marks and the number of bales to which each mark applied, and did not provide accurate information as to the description of the specific bales covered. A receipt was issued only when called for and consequently not always at the time of placing the cotton in storage. Various shapes and sizes of receipts were used and when part of a lot was delivered the receipt was turned in to the warehouseman for cancellation in so far as it applied to the cotton delivered. This was done by scratching the number or by encircling it and setting alongside the number the remainder which was sometimes qualified by the expression "good for." A lot covered by one receipt might be made up of a number of smaller lots each containing bales of two or three grades and in which the individual bales were not identified except by the common mark of the secondary lot. As a receipt frequently passed through several hands and had several partial deliveries made on it the last bank receiving it was often unable to tell the value of the cotton covered by it without a great deal of laborious checking.

New Orleans and Memphis receipts.—Under the rules adopted in the New Orleans market in 1922, all cotton is checked and tagged bale by bale on arrival and the tag placed on a bale at this time is used as its identifying mark as long as it remains in the warehouse. An individual receipt is issued for each bale showing the warehouse tag number, other marks of identification, and the weight of the bale. No provision for a description of the cotton by grade and staple at the time it is placed in storage is made in the blank receipt, but the form used in the New Orleans market provides blank space for entering this information as well as for the certificate of the Federal board of examiners if certification for tender on future contract is requested. However, the samples taken at this time are identified by the stubs of the warehouse bale tags and as soon as the cotton has been classed and a record made of the classification it is very easy to find the description of the bale covered by any receipt. Before the cotton has been classed or a record made of the classification the description of any bale may be obtained by simply finding its samples and having it classed. All warehouses in Memphis now use single-bale receipts. Formerly block receipts were used, but the change to the single-bale receipt was made several years ago. At first it was thought it would be impracticable and that the increased expense of making out and keeping the record of so many receipts would be prohibitive. It has been found in that market, however, that the extra expense on this account is more than offset by the saving in handling the cotton under this system.

Warehouse receipts at small markets.—Many of the warehouses at the smaller interior markets operate under the Federal warehouse act

administered by the United States Department of Agriculture. They may use either single-bale or multiple receipts, but most of them use the single-bale. In the form prescribed for them the number of the receipt corresponds to the warehouse tag number and blanks are provided in it for the entry of the grade and staple length of the cotton according to the official standards of the United States, in addition to the other information usually entered on this type of receipt.

Section 25. Inspection at New Orleans.

Inspection of cotton is made chiefly for two purposes—to determine the character of the contents of the bale, called "inspection for mixes," or "inspection in the head"; and to determine the condition of the bale as to wrapping, dirt, oil, grease, or other foreign matter on the outside and whether water soaked or not, called "inspection for condition."

Mixes.—Inspection for mixes is made by opening the head of the bale, taking out samples, and examining them to determine whether the bale is of uniform grade and staple throughout. In the packing of cotton at the gin the cotton goes into the bale in layers extending from end to end, so that both ends will show the same grades. But a bale may contain cotton from one field on the bottom and that from another field at the top, thereby making possible a difference in grade from top to bottom. Under the rules governing sales of spot cotton if the difference between the two sides is not more than one full grade it is not considered a mixed bale but is classed as of the grade shown by the lower side. If the contents of a bale show a difference of more than one full grade between the different parts, it must be sold as irregular cotton. Cotton which shows a difference of more than an eighth of an inch in length of staple between different parts of the bale must be sold as cotton of mixed staple. The rules of the Department of Agriculture permit a difference of two full grades between the sides of a bale in cotton for tender on future contract.

Inspection for mixes is made by representatives of the exchange when the cotton is sampled and first placed in storage. Under the old rules it was made by a representative of the buyer and might therefore be made a number of times if the cotton passed through several hands, but usually was made as the cotton was being put through the compress in preparation for shipment. When cotton was to be tendered on future contract at New Orleans under the old rules, the chief inspector of the exchange selected an inspector from his force and he examined the end or head of the bale to see that the cotton was of uniform quality and of the same grade and staple shown by the samples taken at the same time by another licensed representative of the exchange, and if it was not of the same grade a portion of the mixed cotton was put in the sample.

Condition.—Inspection for condition is an examination of the bale to determine whether the bale as a whole is in good condition and fit for further handling or shipment. It should show whether the coverings are sufficient and not torn, whether the ties are intact, whether the bale is wet or water soaked, whether any oil or grease has gotten on the coverings and whether the markings are distinct. Every agency that handles the cotton makes this inspection. Not all points are covered by each, but each in turn is responsible for the

condition of the bale and such inspection is made as will determine his predecessor's responsibility at the moment the bale is turned over to him, and also his own responsibility when he turns the bale over to a successor.

Besides this inspection for condition made by each agency handling the cotton a representative of the New Orleans Exchange makes an inspection for condition on incoming cotton at all warehouses. This inspection, however, is said to be principally concerned with seeing that a planter or other shipper to the market gets a square deal, that his cotton is handled and stored properly, and if it comes in in bad condition or contains mixed bales, that it is handled in such a way as to be put on the market to the best advantage for him. As an illustration, it is said cotton may come in with one side of the bale wet for a few inches in. By picking this wet cotton off the bale and sending it to the pickery for the account of the owner the bale may be rebound, leaving a salable bale of cotton which is only underweight.

The exchange representatives at the warehouses take account of all cotton that is picked off there and see that it is sent to the pickeries for the account of the owner. They also test the weight of samples taken to see that cotton is not oversampled.

All cotton ordered out for shipment on the water front or by rail is inspected for condition and density by representatives of the New Orleans Exchange. Any bale found damaged when taken out of the warehouse for shipment is held and reconditioned. Cotton ordered out for shipment by boat is again inspected at shipside by representatives of the cotton inspection bureau of the New Orleans Steamship Association for condition, markings, and density. The rules of the association require that the bales shall be marked with a good quality of ink that will not fade, wash, or rub away so that there can be no question what the marks are. Old marks must be thoroughly obliterated so that no marks appear on the bale except the mark under which the bale is moving for export and the head-brand.[34] In order to obtain a receipt for cotton "in apparent good order and condition," steamship association rules require that each bale must be thoroughly covered so that no part of the contents of the bale is exposed; and that any bales which show external damage from water, mud, or other causes must be condemned and the condition noted and reported. Bales soiled with oil or grease will not be received for loading. When cotton is condemned, the shipping line is notified, and they in turn notify the shipper, so that he may have his cotton reconditioned or recompressed. If cotton is condemned for density only it may be shipped without recompression by paying the higher freight rate and a fixed penalty per bale.

Section 26. Weighing cotton at New Orleans.

The scales employed in weighing cotton are of the steelyard type with special hooks for holding the cotton, and are marked to weigh pounds only. The beam is swung from a wooden horse which may be readily taken down and packed in a very small space for moving from place to place. All scales used in weighing cotton at New Orleans are under the supervision of the exchange and are inspected weekly by a representative of the chief supervisor. If a scale is out

[34] The brand of the original shipper by which the bale may be traced back to the point of origin.

of order it is condemned and can not then be used until it has been sent to the shop, put in condition, and reinspected.

Under the present system of supervision in New Orleans all authorized weighers are employees of the exchange and are divided into two boards and one designated as "seller's weighers" and the other as "buyer's reweighers." A weigher and a reweigher are required to be present for the weighing of each lot of cotton, the one to represent the seller and do the weighing and the other to represent the buyer and check the weights.

Uncompressed cotton is weighed before being compressed and all cotton is sampled before being weighed. The weighers make a careful examination of each bale as it is brought to the scale, and if any are found damaged they must be reconditioned before being weighed or placed in storage. A weight list is made in triplicate and the weight of each bale shown separately. The original and first carbon of this weight sheet are given to the storer and the second carbon is filed with the warehouse office as the permanent record.

The committee on supervision and deliveries of the exchange requires tests of weight and condition of bales at least once a week at all presses and at each unit of the public cotton warehouse. Reports of these tests are kept and are posted for the information of the trade. These records show the date of first weighing, the original weight, date of reweighing, and the reweight.

Allowance is made on all bales for excess bagging or for any other cause for which allowances are usually made. If any allowances in weight are made the quantity and the reasons therefor are noted next to each individual bale on the weight returns. In the event that the two weighers can not agree as to allowances, the manager of the spot handling department appoints a third weigher as umpire, whose decision is final, except in the case of tare, when the weighers may use the rule governing the method of ascertaining tare.[35]

Methods of weighing at New Orleans prior to August 1, 1922.—In the city presses and railroad warehouses before the exchange undertook complete supervision, cotton was weighed by the seller, but the buyer had a representative present to check the weight. All weighers except those employed by the Union Warehouse were licensed by the exchange.

In the public warehouse the buyer and seller could have their own representatives do the weighing, or either or both could avail themselves of the services of the regular weighers employed by the warehouse. In all cases two weighers were required to be present, one to represent the seller and the other to represent the buyer. Each weigher was assigned to a particular part of the warehouse as his station and, in case cotton for delivery was being weighed by two warehouse weighers, the one from whose station the cotton was coming was considered to represent the seller and did the weighing, while the other represented the buyer.

[35] Rule 14. The amount of bagging used to cover any bale shall not exceed $3\frac{9}{16}$ per cent of the weight of such bale, less the weight of the ties. Due allowance shall be made for any excess.

The actual tare shall be ascertained as follows: When the lot numbers 50 or less bales, 5 bales; when more than 50 up to 70, inclusive, 7 bales; and more than 70 bales, 10 bales; or more or less, as may be agreed upon, shall be taken indiscriminately, weighed, and then stripped of the bagging. The tare shall be ascertained as follows:

To calculate the allowance, the proportion of excess bagging over the $3\frac{9}{16}$ per cent shall be as certained on the number of test bales. This proportion of excess, if any, shall then be applied on the gross weight of the entire lot after the weight of ties has been deducted. (Rules of the New Orleans Cotton Exchange, effective August 1, 1922.)

Under the old rules, if the weighers could not agree a third weigher was brought in to arbitrate the difference, and if no agreement could then be reached the bale was sent to the pickery, to have the bagging and ties weighed, if it was a question of tare, or to be picked and rebaled if damage was the question involved, at the expense of the losing party. If a bale was damaged the original weight was noted in one of the columns of the weight list. After it had been picked and conditioned it was again weighed, and the weight noted and marked "scale." A notation was also made of the weight of the pickings.

Certificated cotton.—All cotton tendered on future contract at New Orleans was weighed under the supervision of the chief inspector for the exchange, prior to August 1, 1922 (for the present practice, see secs. 21 and 22, above). The bureau of inspection of the New Orleans Cotton Exchange had a board of eight weighers who were appointed for this work by the cotton exchange. The weighers who handled the cotton specified in a given request for certification were always selected by lot, which would avoid the possibility of any cotton being weighed by an interested person.

A regular form of notification to the assistant inspector, sampler, weigher and reweigher, advising of their selection to handle the cotton was used. This form designated by lot number, marks, and tag numbers the cotton to be handled and was made out in triplicate—one copy went to the sampler and inspector, one to the weigher and reweigher, and one was retained in the office record book. The weigher attended to the scale beam in the process of weighing. The reweigher watched the weighing to see that the cotton was off the ground and that the scale was working properly, and both weigher and reweigher read the weight upon the scale beam. Each recorded in a loose-leaf book the weight, marks and tag number of every bale. This loose-leaf record book in addition showed the name of the party for whom the weighing was done, the lot number, identification marks, tags, press location, and the date. At the end of the task of weighing a given assignment the weigher and the reweigher added up the two weights of the bales handled on the assignment and compared their totals. In case of a discrepancy they checked back to find out on which bale they differed and that bale was then reweighed to correct the error. Both the weigher and the reweigher returned their reports to the office and these reports were kept on file.

A report of "weight returns" was made out to the owner of the cotton by the inspection bureau of the New Orleans Cotton Exchange. This report showed the lot number, tag number, and number of bands on each bale, and the official weight of the cotton, the classification of which had been requested on behalf of the owner. This weight return was used by the owner with the cotton class certificate issued by the Government board of cotton examiners in delivery upon futures contracts. If the cotton was delivered on contract, the cotton class certificate showing grade and staple length of cotton as found by the Government board of cotton examiners was taken by the cotton owner as well as this weight return. If the owner desired to have this cotton separated or "split" he would request the United States board of cotton examiners for two or more new certificates, distributing the bales covered by the original certificate in whatever way his letter of instruction might designate. When an owner asked for split certificates, he returned his original certificate to the United

States board of cotton examiners, and the original "weight returns" to the bureau of inspection of the cotton exchange, and new split weight returns were made out to correspond with the split certificates.

Section 27. Sampling.

Samples for classification are taken by making an irregular opening from 9 to 18 inches long in the bagging on the top or bottom of the bale.

Sampling begins with the first buyer in the country and may be repeated with each successive sale until the cotton is in the hands of the ultimate user. If sampled with each sale, as is the rule except where exchange inspection is employed,[36] the loss from the bale due to the taking of samples is considerable.

The impression prevails among cotton growers that this loss falls entirely on the producer, and the present system of marketing has come in for considerable criticism on this account. This is only in part correct, however. When cotton is shipped to market to be sold on commission the value of the first samples taken, one from each side of the bale, is lost to the consignor, because they are taken before the cotton is weighed. Under the rules of the New Orleans market prior to August 1, 1922, any storer could have his cotton sampled by representatives of the exchange, in which case the buyer could resample it only after the cotton had been weighed up to him, and, therefore, at his own expense. Or any storer could have his own men take the samples, in which event the buyer had the right to resample the bales before weighing. Where this was done the storer's representative took a sample from one side of the bale and the buyer's representative one from the other. The storer's sample was ordinarily retained by himself. The other was the property of the buyer and became the seller's sample in the next sale of the bale. These samples are finally sold to pickeries at something near the current price for cotton, so that, except for the first samples taken, the loss to the seller is in each case largely recouped by the sale of the samples.

The bulk of the sampling of cotton is done at the warehouses in the important spot markets, such as New Orleans, Memphis, and Galveston, because it is in such markets that most of the intermediate sales are made. Under the present rules, at New Orleans, upon delivery at the warehouse, the cotton is ranged by a crew of laborers for inspection and sampling. Representatives of the exchange then inspect it for condition and for mixes, sample it, tag it, and prepare a sampler's list. Coupon tags are used, the original being fastened to the bale, and the coupons placed with the samples. The sampler's list shows the tag numbers arranged in numerical order and alongside each tag number the original markings belonging to the bale as shown by the manifest. These markings are checked against the manifest and any discrepancies noted and inquiry made later to clear them up. Notations are also made after the tag numbers of anything affecting the value or salability of a bale, such as that it is water soaked or otherwise in bad condition, and if a bale is found damaged

[36] In Memphis the single-bale receipt is used in all warehouses, and sampling and weighing are done by bonded employees of the warehouses, making rehandling for these purposes practically unnecessary. In warehouses licensed under the Federal warehouse act weighing is done and samples are taken by employees of the warehouses when the cotton is received, and since the warehouse is bonded to the Department of Agriculture, it is ordinarily not necessary to repeat these operations.

it must be reconditioned before being weighed and placed in storage.[37]

As previously stated (sec. 22), two samples are taken, a part of each coming from the top and a part from the bottom of the bale. One sample is sent to the storer and the other to the exchange to be held as a reserve sample and for the use of the Federal board of examiners in case it is desired to have the cotton certificated for delivery on future contract. The reserve sample is delivered to the buyer on application. The buyer may obtain the storer's samples upon terms to be agreed upon. He may, on seller's order, review the reserve sample held by the exchange, but such review must be under the supervision of an exchange representative duly authorized by the manager of the spot handling department. When cotton for which the samples are in the custody of the exchange has been shipped, the owner must remove the samples within two weeks of the date of shipment; otherwise they become the property of the exchange.

Prior to the change of rules in August, 1922, most of the sampling in the New Orleans public warehouse was done by men licensed by the exchange and employed by the warehouse, but the owner of the cotton could have his own men do the work if he desired.

In sampling for classification for delivery on future contract, the work was done by licensed samplers of the exchange under the supervision of an employee of the Federal board of examiners. The cotton was ranged in the same way as for the ordinary sampling, a tag was placed on each bale, a sample was taken from the top of the bale and one numbered stub placed with it, and then the bale was turned over and a sample taken from the bottom and a second numbered stub placed with it. A 6-ounce sample was taken from one side of the bale and an 8-ounce sample from the other. These samples were turned in to the offices of the bureau of inspection of the exchange and were there combined and split and handed over to the Federal board of examiners for classification.

Section 28. Classification on arbitration.

In the New Orleans market, when there is disagreement between the buyer and seller as to the grade and staple of cotton delivered otherwise than by tender on future contract, the matter in dispute may be submitted for arbitration. This is done in a joint letter by the parties to the secretary of the exchange, or in a letter by one of the parties to the secretary, a copy of which has been sent to the other party. This letter states the terms of the sale, the description of the cotton by grade and staple, or submits type samples of the cotton if sold on type. The secretary of the exchange in turn submits the matter to the board of classers of the inspection bureau of the exchange with a copy of the original letter from which all names of parties interested have been omitted.

The letter sets forth whether the complaint is that the cotton is "not up" to grade, "not up" to staple, or "not up" in either grade or staple. If the cotton has been sold on type, the board receives the type samples. If the cotton is in New Orleans, the board receives

[37] Under the former practice in New Orleans a duplicate record of the information on the sampler's list was made in the yard book, which in addition showed the point in the warehouse at which each bale was stored. The sampler's list, together with the tagged samples, was turned over to the storer and the manifest was filed with the records of the warehouse.

an order to resample it; but if it has been delivered to the mill, the new samples are sent in by the mill. The seller will usually have a representative at the mill to see that the samples are properly taken.

The board examines the samples for grade or staple or both, as requested, bale by bale, to see if they come up to the type if sold on type, or up to the description if sold on description. Any bale which is equal to or above the grade, or which shows staple equal to or better than that called for by the type or description, is marked "pass." If any bale is below the grade or staple called for by the contract, it is marked "not up."

A summary report is made by the board showing the number of bales passed and the number not up. A detailed report is also made showing the result of the examination bale by bale, each bale being identified by lot and tag number to give the parties a specific decision on each bale examined. These reports are signed by the board of classers and turned over to the secretary of the exchange, who forwards certified copies of them to the interested parties.

Cotton which has been found not up to the contract requirements may be rejected, or the parties may agree on an allowance, or they may agree to an appraisal of the value by the exchange. This is made by two members of the appeal committee selected by lot, and if they can not agree a third member of the committee is drawn by lot to cast the deciding vote. No allowance is made for delivery of cotton that is better than that called for by the contract.

If either party is not satisfied with the decision of the board of classers in an arbitration proceeding he may have the matter submitted to the appeal committee, three of whom, excluding interested parties, are chosen by lot to make a final decision.

Section 29. Classification of cotton tendered on future contract.

The cotton futures act requires that all cotton tendered on future contract at either future market be classed and stapled by a board of three examiners appointed by the Department of Agriculture for that market and known as the United States Board of Cotton Examiners. The course of procedure is for the tenderer to issue an order to the exchange to have the cotton sampled. This order is filed with the inspector in chief of the exchange and his licensed samplers secure the samples. One of the two samples turned over to the Federal board is treated as an original and one as a duplicate, the cotton is classed as to grade and staple length, and the result of the classification spread on a permanent record bale by bale in numerical order. A certificate is then issued showing that the cotton is tenderable or is not tenderable. The certificate and original sample are turned over to the party asking for certification and the duplicate sample is retained by the board as their guaranty or for use by the receiver if he asks for review on appeal.

When the cotton is finally disposed of the certificate is surrendered to the board of classers and the duplicate sample is turned over to the person turning in the certificate. The charge for classing and certificating in the middle of 1922 was 20 cents per bale, but it has been as high as 50 cents per bale when the volume of inspections was small. The charge for sampling is made by the exchange according to its fixed scale.

The members of the Federal board of examiners at New York are frequently interchanged with members of the board for New Orleans

in order to insure that both boards are familiar with the practice at both markets and that both are working along the same lines.

Section 30. Arbitration.

New Orleans market.—The term "arbitration" at New Orleans is used to cover the method of settling disputes in at least three different types of cases—those based on questions of classification, those growing out of other questions in the course of trading in cotton, and those "arising out of transactions other than in cotton which come within the scope of Article II of the constitution." [38]

Article IX of the by-laws authorizes the board of directors to appoint a "committee or committees of experts" to decide questions of classification. Future rule 8 provides that this—

> board of classers shall consist of from three to seven recognized experts (one of whom shall be designated by the board of directors as the chairman) who shall be paid salaries to be fixed by the board of directors, whose services shall be entirely at the disposition of the exchange during each business day, and who shall not be engaged in any occupation other than classing cotton for the exchange and the performance of such other duties as may be required of them under the by-laws or by the direction of the board of directors.

Provision is made under future rule 10 for appeal from the decisions of the board of classers, and the board of directors is required to "appoint annually, in the month of December, an appeal committee on classification, to consist of seven members of the exchange, who shall be recognized experts in the classification of cotton." Three members of this committee are chosen by lot by the superintendent of the exchange for each appeal and the "award of the majority shall be final and binding."

All questions of classification arising under contracts for future delivery must be referred to the United States Board of Cotton Examiners and its decision is final, except that it may be required to review its own findings. This leaves to be decided by the exchange board of classers only questions of the classification of cotton offered or rejected on spot contracts. The following statement shows for the years 1916 to 1922, inclusive, the total number of bales arbitrated by this board and for years for which data are at hand the number of bales appealed from the board's decision.[39]

Year ending Oct. 31—	Bales arbitrated	Bales appealed	Year ending Oct. 31—	Bales arbitrated	Bales appealed
1916	18,757	(1)	1920	80,478	5,843
1917	33,209	4,831	1921	102,221	2,464
1918	52,785	(1)	1922	87,729	9,664
1919	55,343	2,072			

[1] Number of bales appealed not stated in the exchange report.

The arbitrations on classification for the year 1921 were the largest in number of bales so far recorded and approximate 12½ per cent of the total sales to which this arbitration might have been applied. (Annual report of New Orleans Exchange, 1921, pp. 8 and 28.)

Articles IX and X of the by-laws provide, respectively, for the appointment of an arbitration committee of nine members to hear

[38] Article XIV of by-laws.
[39] From annual reports of New Orleans Cotton Exchange.

and decide claims of the second type, and an appeal committee of seven members to review the findings in such cases on appeal. Three of the nine members of the arbitration committee, chosen by lot, may hear and determine the matter at issue, but either party may demand a hearing before the whole committee. (Article XIV of the by-laws.) The committee on appeals sits as a whole, but five members constitute a quorum to review and decide cases brought before it. The following statement shows the number of cases brought before the committee on arbitration, the number appealed, and the number affirmed for the years 1919–1922, inclusive.[40]

Year ending Oct. 31—	Cases brought	Appealed	Affirmed
1919	17	6	5
1920	16	7	7
1921	15	7	(1)
1922	12	1	1

[1] Number affirmed not stated in the exchange report.

Of the appeal cases, only two in 1919 and one each in 1920 and 1921 involved future transactions.

Authority is given in Article XIV of the by-laws for the appointment of a committee or committees to hear and decide cases of the third type, i. e., disputes arising out of transactions other than in cotton. In the years for which the commission has reports on file, 1917 to 1922, no cases have been submitted to these committees and they have therefore rendered no decisions.

New York market.—Arbitration is invoked in the same three types of cases in New York as in New Orleans, but the committees to which the decisions are intrusted and the methods of producers are quite different.

The board of managers is authorized, under section 12 of the by-laws, to appoint a classification committee, and under section 21 it is provided that this committee "shall consist of the Inspector in Chief and of not more than six other recognized experts, who shall be paid salaries to be fixed by the Board of Managers," and that "their services shall be entirely at the disposal of the Exchange, and they shall be under the supervision of the Inspector in Chief, subject to the Warehouse and Delivery Committee."

When classification is requested, it is made "by two members of the Classification Committee. In the event of these two being unable to agree, the Inspector in Chief shall appoint a third either from the remainder of the Committee or from such persons as shall be designated by the Warehouse and Delivery Committee for the purpose, and a majority of these three shall decide the classification." The committee, "on request of the party submitting cotton for classification, consider the staple as well as the grade."

The following statement shows the total quantity of cotton examined by the New York inspection bureau, the domestic cotton classed, the foreign cotton classed, and the total of the two for the years ended April 30, 1919 to 1922, inclusive:[41]

[40] Annual reports of New Orleans Cotton Exchange.
[41] Annual reports of New York Cotton Exchange.

Year	Total inspected	Domestic cotton classed	Foreign cotton classed	Total classed
	Bales	*Bales*	*Bales*	*Bales*
1917	80,791	21,997	(1)	21,997
1918	110,935	10,924	9,800	20,724
1919	53,734	23,253	5,993	29,246
1920	70,668	10,517	29,893	40,410
1921	146,560	10,052	4,606	14,658
1922	96,732	6,305	3,558	9,863

[1] Not shown; may be included in domestic.

Arbitration of questions other than of classification arising in the course of trading in spot cotton is provided for in section 23 of the by-laws, and the appointment of an arbitration committee is authorized in section 12. This committee—

> shall consist of seven members of the Exchange, from whom the two arbitrators chosen by disputing members shall in all cases choose the third, in the manner prescribed by these By-laws. It shall hear and decide such matters as may be referred to it under these By-laws and Rules.

Section 71 of the by-laws states the questions that may be arbitrated and the method to be followed to obtain arbitration. Section 73 provides that—

> Each member of the Exchange included in such arbitration shall, within three days after the service of said notice upon him, nominate to the Secretary one member of the Exchange to act as arbitrator. If any member or members shall fail or omit so to nominate, the president of the Exchange shall, on behalf of said member or members, nominate one member to act as arbitrator. If there be more than two parties to said claim, dispute, difference, or controversy, and more than two arbitrators nominated, the Secretary shall draw by lot, from the whole number so nominated, the names of two members to act as arbitrators, and shall at once notify them of their appointment. The two arbitrators so appointed shall, within 24 hours thereafter, select a third from the Arbitration Committee; but, if they can not agree upon any member of said Committee, they shall make such selection by lot.

Any member of the exchange affected by a decision or award of arbitrators may appeal from it to the board of appeals. (Sec. 77 of by-laws.) This board, authorized under section 12 of the by-laws, consists of seven members of the exchange, and hears and determines finally all matters referred to it under the by-laws and rules. The vote of at least a majority of the whole board is necessary to determine a case. (Sec. 24 of the by-laws.)

Under (h) of rule 3, disputes "involving questions of the time and price at which contracts for the future delivery of cotton were made, or of the market price properly obtaining at the time such contracts were made, or of the recording of transactions in the record of transactions shall be referred to the committee on contracts for future delivery of cotton." This committee consists of five members of the exchange, one of whom retires each month, and its decisions are final.

Section 5 of the charter provides that—

> The Board of Managers shall annually elect, by ballot, five members of the association, who shall not be members of the Board, as a Committee, to be known and styled the Adjudication Committee of the New York Cotton Exchange. The Board of Managers may at any time fill any vacancy or vacancies that may occur in said Committee for the remainder of the term in which the same shall happen. It shall be the duty of said Adjudication Committee to hear and decide any con-

troversy which may arise between the members of the said Association, or any person claiming by, through, or under them, and as may be voluntarily submitted to said Committee for arbitration; and such members and persons may, by an instrument in writing, signed by them and attested by a subscribing witness, agree to submit to the decision of such Committee any such controversey which may be the subject of an action at law or in equity, except claims or title to real estate or to any interest therein, and that a judgment of the Supreme Court shall be rendered upon the award made pursuant to such submission.

A majority of the committee constitutes a quorum for the purpose of conducting a hearing and a majority of members present at the hearing may decide the case and make the award. (Sec. 7 of charter.) Decisions of this committee are apparently final except that if the submission and award are filed for record in the office of the clerk of Supreme Court of the City and County of New York, judgments entered in conformity with such awards may be appealed from for fraud, collusion, or corruption of the adjudication committee. (Sec. 7 of the charter.)

CHAPTER III

COMPETITIVE CONDITIONS

Section 1. Introductory.

Careful attention was given to the subject of competitive conditions surrounding the marketing of cotton. Agents of the commission visited many of the more important cotton markets in the South, including all of those which are officially designated as spot cotton markets by the United States Department of Agriculture. Besides these larger markets, agents also visited many of the smaller or local country markets which are scattered throughout the entire Cotton Belt, and also numerous so-called concentration points.

In a number of the large spot cotton markets, such as New Orleans, Dallas, Houston, Galveston, Memphis, and others, there are cotton exchanges. The membership is usually of two classes—first, those persons who are actively engaged in the handling or merchandising of cotton and commonly referred to as "cotton merchants," or "buyers and shippers" (export and domestic); and, second, those whose business interests are more or less closely related to the cotton trade, such as cotton forwarding agents or freight brokers, local bankers, spinners' agents, cotton warehousemen, etc. Only one of these large spot markets, namely, New Orleans, directly transacts business in cotton futures, although various futures brokers have memberships in some of the other exchanges. The various exchanges have rules and by-laws which purport to establish just and equitable principles of trade and to promote generally the best interests of the members.

In addition to these exchanges there are a number of associations of cotton merchants and others organized to promote the interests of the special classes within each group. Probably the most important of these organizations is the Texas Cotton Association with about 200 members.

In most of the cotton-growing States there are organizations of producers, formed for the purpose of marketing the cotton grown by their members. Many of these cooperative organizations are federated into what is known as the American Cotton Growers' Exchange.

Including local dealers there are several thousand concerns (corporations, partnerships, and individuals) engaged in buying and selling cotton, only some of which could be visited by the commission's agents. It is believed, however, that the places, firms, and individuals visited were in every respect representative. The field work was so conducted that the Cotton Belt was visited at a time when cotton was being marketed by the growers, thus affording agents of the commission an opportunity of making observations of actual practices with which to substantiate or to supplement their interviews.

In addition to interviews with those who buy, sell, and handle cotton, many growers were called upon, as were representatives of most of the growers' cooperative associations. Bankers were also asked to express their views on many points with which it was be-

lieved they would be familiar. Nor was the work of the commission's agents confined merely to interviews. The correspondence files of a number of cotton merchants at the designated markets and elsewhere were examined. The records and data of several associations and of some of the cotton exchanges also were carefully studied, as were their correspondence files.

It is to be expected, of course, that in an industry or business so large and covering so wide a territory as does the cotton business, it would be difficult to make specific statements regarding practices and conditions applicable to the entire cotton belt and to all cotton firms.

Section 2. Competition in country buying.

Introductory.—Every effort was made to ascertain competitive conditions in the buying of cotton at country points. In this work every class interested in or connected with the buying of cotton in the local markets, growers included, was interviewed. The files of a number of merchants were also examined.

Assertions were frequently made to the effect that competition at country points was restricted in one way or another. In every case an informant making any charge of lack of competition was asked for evidence thereof or assistance in obtaining such evidence, but none of these was able to supply any tangible proofs. From the nature of the case, however, it would generally be difficult to furnish such proofs.

In several instances inquiry developed that the situation complained of no longer obtained, as, for example, in the case of the following statement made to an agent of the commission respecting a cotton market in Texas:

> The scalpers had an understanding that the fellow who first sampled the cotton was to have it, and other scalpers would not make offers on it so that the producer usually had to take whatever he could get out of it from the scalper who saw it first * * *. This condition has been largely overcome now.

The following is also typical of the statements sometimes made to the commission's agents. A representative of an eastern cooperative association said that certain territory was considered as more or less belonging to a particular firm, and that this firm had done business in this territory for so many years that, to quote from the interview, "he had the trade 'sewed up' and was ready to fight if outsiders came in." Later investigation showed, however, that there was keen competition in this territory. A factor in one of the Atlantic States said:

> In buying cotton in the country, however, there is not the free competition that should prevail. * * * They agree to prices and the division of receipts, and in many cases these agreements are very effective. If one buyer wants a particular grade of cotton on a certain day, the other buyers will "lay off" that grade.

This factor was asked to give all information possible in connection with these charges, but he could not furnish anything more specific.

Agents of the commission, who visited a great many small country markets throughout the Cotton Belt during the fall of 1923, and who interviewed growers, country buyers of all kinds, ginners, bankers, and representatives of cooperative associations, obtained no tangible, concrete evidence of restraints of competition of any form. It appears that there is a great deal of competition in the buying of

cotton at country points throughout the larger part of the Cotton Belt. Examination of the correspondence files of a number of cotton merchants failed to reveal a single instance of any restriction upon competition in buying cotton. The files were replete with letters from country representatives of the firms in question in which permission was asked to increase their buying limits, or prices, because of higher bids offered by competitors. At times the reason given for desiring to increase limits was to secure a "fair share" of the cotton coming on the market.

There are several reasons for the keen competition that seems to be characteristic of the cotton business. One of these reasons, and the most important one, is the decline in the size of the crop in recent years. This decrease and the increase in the number of mills in the South, particularly in Georgia and the Carolinas, has been responsible in large measure for an increase in competition at country points. Factors give as one of the reasons for the decline in their business the increase in the number of buyers at country markets due to the causes stated above. Eastern cotton firms now find it necessary to send buyers as far West as Texas and Oklahoma in order to secure an adequate supply of cotton. This increase in buyers at country points does not apply to all sections. The decrease in size of the crop has caused buyers to leave some localities. On the whole, however, it is believed the total number has increased. It is certain that competition for the growers' cotton has been greater in recent years than it formerly was.

Another important cause of competition at country points is buying by country storekeepers who have taken over from factors a large part of the financing of growers. A merchant in one of the Atlantic States said:

> The hardest competition is from the country merchants. * * * In nine cases out of ten the country merchant pays at least one-fourth cent more than the cotton is actually worth at the time he buys it. He is forced to do so in order to get his money from the farmer who has lived on credit supplied by him for the past year.

The above quotation is typical. However, the higher price paid the farmer for his cotton has not infrequently been offset by the higher prices which the merchant has charged the farmer for his supplies. (See Chap. II, p. 25.)

It appears that sometimes cotton purchased from the growers is bought at prices which at the time of the transaction would show a loss to the buyer. This is true of not only the country merchants but also at times of many scalpers and independent buyers. These latter apparently buy cotton at top prices in the hope that an increase in prices will soon follow. A street buyer in a Texas town said, in speaking of conditions in his locality:

> Most of the buyers are scalpers; that is, they are buying for their own account and then selling out to dealers. * * * They commonly pay more than the market warrants * * *. They are expecting to make by a slight advance in the market. Many times they do, but sometimes they lose.

Another factor in country competition is the cooperative marketing association. These associations do not compete for cotton in the sense of bidding against other buyers. (See Chap. II for methods of cooperatives.) The weight of the evidence is that on the whole conditions at country markets are better because of the existence of

these associations. It is said that one of the benefits from the existence of the cooperatives is that growers have learned more about grades; as one cotton buyer in North Carolina put it, "so much so, that now and then a fellow kicks on the grade offered." The cooperatives are now handling a very large quantity of cotton,[1] and furnish to the grower a powerful safeguard against lack of competition.

Competition between towns.—There are some towns and villages in the Cotton Belt where there is but one buyer. It is not known, of course, how many such places there are, but it is believed that they are comparatively few. One of the chief reasons for this occasional scarcity of buyers is the lack of cotton in that vicinity.

It does not appear that in every instance growers in the vicinity of towns with but one buyer are completely at the mercy of such buyer. Competition from near-by towns seems to prevent, in some instances at least, the only buyer at a point from getting cotton too cheaply. Thus, it is claimed that at one point in Louisiana conditions have grown so bad and producers so outspoken in their criticism of the local buyer's methods that this town is practically passed by as a market, the producers formerly selling at this point hauling to a town 7 miles away where there are several buyers. It is alleged that the buyers at this latter point were offering 2 cents per pound more for cotton than was the only buyer at the other town.

Mill competition.—The increase in the number of mills in the South has had a decided effect upon competition in buying cotton in the country in many localities. A buyer in a North Carolina town stated that "the mills have some effect on the market and can afford to pay about one-half cent more for cotton than the outside buyer, as they have no freight to pay." A merchant at Charlotte, N. C., on the other hand, said: "The mills have not had any snap in buying direct from the growers, because there were too many independent buyers wanting cotton."

Section 3. Selling cotton.

Much of what has been said in the preceding section regarding competition in the buying of cotton at country points is equally true of selling cotton.

Very careful inquiry was made into the status of competition in selling cotton. It was the consensus of opinion in the trade that this competition was exceptionally keen and fair and this is quite generally borne out by the investigations made.

According to some few informants there have been occasions where groups of merchants have gotten together for the purpose of restraining competition.

Section 4. Concentration of cotton merchandising.

Since the publication of the data on concentration of cotton merchandising in the commission's preliminary report on the cotton trade (pp. 2–3), additional sales data for the same years (1919–20 to 1921–22) have been received, and these, including the earlier data, are presented in the table below, the concerns represented being grouped according to the volume of the business done.[2] Thus, if a

[1] At the commission's cotton conference C. B. Howard, sales manager of the American Cotton Growers Exchange (Inc.) stated that the 12 State Cooperative Associations which he represents would handle approximately 10 per cent of the 1923–24 crop.

[2] Bales sold.

merchandising concern sold over 100,000 bales of cotton in any one of the three years for which data were secured, it is included in that group for all three years. A second group is made up of concerns reporting sales of 25,000 bales or more in any one year and includes, therefore, the concerns of the first group. The third group, representing the largest number of concerns, is made up of those having sales of less than 25,000 bales.

From the table it appears that in each of the three years 24 concerns included in the group reporting sales of 100,000 bales or more in any one year handled a very important part of the cotton crop in each of the years indicated. In 1919–20 this group reported sales of 4,676,647 bales of cotton, equivalent to 41 per cent of the crop of that year. In 1920–21 the sales of the 24 concerns in this group were 4,556,408 bales, or the equivalent of 34 per cent of the crop of 13,270,970 bales. The 1921–22 sales of the 24-company group were equivalent to 60 per cent of the cotton crop for that year, the sales being 4,775,830, and the crop but 7,977,778 bales.

Two of the concerns included in the 24-company group reported sales totaling about 1,500,000 bales for each of the three years, 1919–20, 1920–21, and 1921–22. These sales ranged from about 10 per cent of the American cotton crop to nearly 20 per cent in the years specified.

In the above discussion the carry-over from year to year has not been considered.

TABLE 11.—*Concentration of cotton merchandising as shown by quantity of sales of dealers reporting, in comparison with total United States production, 1919–20 to 1921–22*

Item	Aug. 1, 1919–July 31, 1920			Aug. 1, 1920–July 31, 1921			Aug. 1, 1921–July 31, 1922		
	Number of concerns reporting	Number of bales (sales) [1]	Per cent sales to production	Number of concerns reporting	Number of bales (sales) [1]	Per cent sales to production	Number of concerns reporting	Number of bales (sales) [1]	Per cent sales to production
Concerns reporting sales of 100,000 bales or more [2]	24	4,676,647	41.3	24	4,556,408	34.3	24	4,775,830	59.9
Concerns reporting sales of 25,000 bales or more [3]	89	7,040,015	62.2	94	6,820,018	51.4	98	7,249,446	90.9
Concerns reporting sales of less than 25,000 bales [3]	175	1,178,660	10.4	197	1,133,279	8.5	217	1,287,771	16.1
All concerns reporting sales	264	8,218,675	72.6	291	7,953,297	59.9	315	[4] 8,537,217	[4] 107.0
Total United States production [5]	------	11,325,532	------	------	13,270,970	------	------	[4] 7,977,778	------

[1] Duplication of sales is involved in these figures. In 1920–21 sales of the first group to dealers, however, constituted only 11.6 per cent of its total sales, and of the second group only 14.8 per cent of its total sales. In the case of the third group 40.1 per cent of its total sales were made to dealers. On the whole such duplication would not seem to lessen the degree of concentration shown.

[2] Concerns reporting sales of 100,000 bales or more are the same throughout the three years.

[3] Concerns in this group vary somewhat in identity from one year to another.

[4] The apparent inconsistency of sales and production figures may be explained largely by the fact that an unusually large carry-over at the beginning of this year was reduced during the year by more than 50 per cent.

[5] Bureau of the Census publication Cotton Production in the United States, Crop of 1921, p. 1. The figures are running bales, counting round as half bales. The figures in running bales are used to make them comparable with the sales figures, which presumably are also in running bales.

Since the data above referred to were obtained, and in the course of the commission's further inquiry into conditions surrounding the merchandising of cotton, the views of a large number of cotton merchants have been obtained with regard to this noteworthy concentration in the spot cotton business. Trade opinions show considerable diversity, a number of merchants taking the position that concentration as shown in the above table is undesirable, while others see no danger in the situation. In the pages immediately following an attempt has been made to present the views of the trade regarding concentration in the merchandising of spot cotton.

Trade opinion adverse to this concentration.—It is the contention of a considerable number of cotton merchants that this tendency toward concentration has developed rapidly in the last few years. A southern cotton merchant gave it as his opinion that during the last two years (1921–22 and 1922–23) 40 per cent of the cotton business in the United States has been handled by only four concerns. He believed, however, that the proportion of the total business handled by these concerns is largely dependent upon the size of the crop, their percentage of the total business being larger when crops are small, as they have been during the last two years.

A cotton merchant and exporter at New Orleans made the following comment:

It is acknowledged that concentration in cotton sales is increasing and you [the commission] should try to correct it. If it gets to the point that there are only one or two parties operating in a market they are able to get the price they want and are likewise able to fix the price they will pay. In the New Orleans market at present concentration has not reached the point to cause any trouble. But if it continues to increase as it has the last few years there is likelihood of its reaching the danger point.

Concentration has increased much more since the war began. More small firms have disappeared and the big companies keep getting stronger.

Many cotton men stated that this concentration is generally conceded; that this has affected the general cotton trade adversely; and that opportunities are thus present for these large operators to control prices and influence the futures market. One southern cotton man, in this connection, made the following statement:

Suppose a large operator has a large stock of spot cotton, and he is also short a large amount of contracts for the current month. Certain grades in his large stock of cotton are not marketable, there being no demand for such qualities. He will tender such cotton that is not in demand, and it soon becomes known that he is tendering such qualities, and those who are long of the current month will endeavor to get out, and can do so only at a price largely influenced by the large operator who has the other end of the contract.

Another cotton man stated that he believed the futures operations of the large spot houses were directly responsible for the troubles in the futures market; while still another cotton man made the following statement:

These firms are able to do a tremendous business and, because they are very strong financially, are able to manipulate the New York futures market whenever they desire—which is distressingly often.

A view regarding concentration which was frequently expressed was to the effect that a few large cotton firms had reached this position very largely because of their operations in the futures market. In fact, a number of cotton men, when asked to express their ideas with reference to the tendency or lack of tendency toward concentration of the business, would almost immediately launch into severe criticisms of the futures operations of the three or four largest spot merchants. Thus, statements such as the following were frequently made:

These firms have gained their prominence chiefly from their ability to manipulate the New York futures market, which they do with great frequency and regularity.

Another cotton man said that he believed that these firms manipulate the futures market, and that, while this is harmful to the small traders, it is perfectly natural that they should do so. He believed, however, that some of this "manipulation" is legitimate, because the spot operations of these concerns are so large that their hedges have a great effect upon the market. And he added:

This gives these firms a big advantage; the small trader can not hedge now with safety. This is not entirely due to manipulation, however, but to the fact that the futures market is not performing properly.

Another cotton merchant made the following comment:

I do not believe that the volume of business transacted by any one firm, or any number of firms, could possibly be in restraint of trade, if the manipulation of the future market could be eliminated. As it now exists, I believe that the transactions of a few firms are very much in restraint of trade. It is the volume of trading, in a way, by making sales on one month. I think that I understand that fully. For instance, suppose that X and Y[2] have a stock of 100,000 or 200,000 bales to dispose of. I know that this is one of Y's old tricks. He sells that cotton, based on a certain month. He hedges this cotton in another month. He proceeds to buy the month on which his sales are based and to depress the month in which he has placed his hedges. He catches me down here, and all the fellows with 5,000 or 6,000 bales of hedges. Say they wanted to put their hedges of 100,000 bales in May. They would sell 200,000 Mays, and having sold 100,000 more Mays than they had actual spot cotton enables them to commence buying the other month that their sales were based on. In other words, they would put May down and July up, constantly selling May, and constantly buying July.

Trade opinion that concentration is unobjectionable.—As was found to be the case with almost every important problem presented during the inquiry, the trade is divided in its views. While it may appear from what has already been said upon the question of concentration in the merchandising of cotton, that there is a tendency in that direction, nevertheless there are many cotton merchants who hold the contrary to be true. Among those who were willing to concede that the tendency may be toward concentration many were found who do not see any real danger in this situation.

The president of one of the State cooperative associations made the following statement:

There is no danger in the growth of the large concerns. Their success is due to efficient methods rather than to any combinations, agreements, divisions of territory, etc. To hamper them would be to penalize economy in the interest of more wasteful smaller concerns.

A prominent cotton man at New Orleans, in answer to a question as to whether or not he thought any group of spot merchants were important enough to dominate the spot-cotton business, said:

I would say no. In small-crop years we always have rumors of, or rather we have reports that, certain spot interests are dominating the market, but that is

[2] Letters are used by the commission instead of names referred to by the merchant in this illustration.

the natural result of a small crop—limited supply—because the large spot merchants, by reason of their very heavy operations, make a great splash, you might say, in small-supply years.

Another New Orleans cotton merchant said:

The handling of spot cotton throughout the United States is very greatly distributed among many thousands of small buyers and shippers. There are a few large firms that handle large volumes of cotton, but to a great extent I believe this is due to the highly efficient selling agencies which they maintain, located throughout Europe and the United States, and which are always prepared, particularly in Europe, to sell cotton on any terms within reason that the mills may require.

A cotton merchant of Norfolk, Va., who handles a large amount of spot cotton, said:

If they [the larger firms] are smart enough and so efficient as to obtain the bulk of the business, then they are entitled to it if they do it fairly, as the firms mentioned have done.

Several cotton men took the position that it is of distinct economic advantage to the trade as a whole to have a few outstanding firms in the business. It was stated by one merchant that the large dealers are an advantage to the trade and to the grower, furnishing a market for 1,000 bales at any time, while otherwise it might be difficult sometimes to find a buyer for even 100 bales.

Another merchant said:

Regarding the outstanding, large spot-cotton dealers of the United States, they are really of advantage to the trade. When he had sometimes tried in vain to place a lot of his spot cotton to advantage with buyers or mills, he had turned to these large houses and made good sales immediately. They were always in the market to buy spot cotton, while this could not be said of the mills.

A Mississippi buyer took this same position:

The large spot dealers are an advantage to the growers and small dealers. They never work together, but are competitors in every instance. They have so much red tape and their overhead expenses are so high that the small dealer can "run rings around them."

Statements were frequently made to the effect that one of the largest cotton merchants at times appeared to make it a practice to offer cotton for export and for domestic consumption at prices so low as to defy all competition. Coupled with such statements assertions were frequently made to the effect that, because of his large operations in the futures market, this large merchant was habitually able to undersell his competitors. Investigation developed, however, that this was not always the case, for the files of the firm in question contained hundreds of letters, cablegrams, and telegrams from branch offices both in this country and abroad showing that the merchant in question had lost business because he would not meet the prices of competitors, some of whom had been his severest critics in alleging concentration and manipulation.

Illustrating further the wide divergence of views of cotton men with regard to the question of concentration or the tendency toward concentration in the merchandising of cotton, the following comments are noted:

A New Orleans cotton man made the following statement:

The business is too big to be dominated by any one firm, and the present laws are sufficient to prevent a combination which could dominate the trade. A large dealer, thoroughly informed, is in position to take advantage of the economic situation that he can see clearer than someone else, and this might have the appearance of domination, but the principal domination comes from his seeing the situation clearer and working on the sound economic lines that he sees and the others do not.

A southern merchant said that he thought that the concentration of the spot business was unavoidable as regards the export business, because these large firms are able to make financial arrangements, whereas the smaller dealers were not in position to do so, and to that extent the business had drifted into the hands of the large dealer.

A Memphis cotton man voiced a somewhat similar view when he said:

In order to have the crop marketed economically on the whole it is necessary to have a very few large dealers, especially for the export business. Mills desiring to place very large single orders could not do so as economically if they had to parcel them out through a number of small dealers.

Some cotton people attributed the growth of the large firms to efficiency and not to any combinations, agreements, or divisions of territory.

Section 5. Alleged combined operations in the futures markets by certain cotton firms.

The attention of the commission's examiners was frequently directed by various cotton men to the alleged manipulation of the New York cotton futures market by certain of the larger cotton merchants. Allegations were frequently made that three of the principal firms, Anderson, Clayton & Co., Harriss, Irby & Vose, and George H. McFadden & Bro., were working together under some sort of a "gentlemen's agreement" in their futures operations, with the result that they were able at times unduly to influence, to their own advantage, the course of future prices.

Criticisms of the above character were very frequent with respect to the then current futures operations of these firms on the New York Cotton Exchange during the first half of 1922. In addition to oral allegations or criticisms the commission obtained copies of many letters written by members of the New York Cotton Exchange to their customers, reiterating, sometimes in the most positive language, criticisms similar to those which agents of the commission had obtained in interviews with the trade.

While, as stated above, criticisms were more frequently heard during the first half of 1922, they were also made during 1923. The commission has not obtained any proof that these concerns have ever pooled their interests in the futures markets.

Section 6. Attempted agreement on selling basis.

During the field work in connection with this inquiry certain letters were found which indicate very strongly that an attempt was made to bring about an agreement or understanding on selling basis to mills in the South Atlantic States. This attempt directly concerned Anderson, Clayton & Co., and Geo. H. McFadden & Bro., and possibly Harriss, Irby & Vose, the three largest firms. These three concerns are included in the group of the 24 largest merchants shown in Table 11, and the combined handlings of two of these three, as stated, averaged about 1,500,000 bales in each of the three years, 1919–20 to 1921–22. By selling basis is meant the number of points or margin to be added to the price of a future month when

offering spot cotton for sale. In effect selling basis is the price at which spot cotton is offered. These letters are set forth below with such comment as necessary to make a connected story. The explanations of these letters given by W. L. Clayton, of Anderson, Clayton & Co., and George Stuart Patterson, of Geo. H. McFadden & Bro., are also given.

On June 17, 1922, Geo. H. McFadden & Bro. advised Harriss, Irby & Vose regarding their new crop basis as follows:

We are writing to confirm conversation held over the telephone with our Mr. George McFadden in regard to our new crop basis.

As mentioned we are offering Texas cotton basis Middling at the equivalent of 65 on October New York, f. o. b. Galveston.

Our Upland basis is also 65 on October New York, f. o. b. Savannah.

For your information, however, we beg to say there is a difference in our c. i. f. 6 per cent price for Texas and Uplands of 20 points. This being due to the cheaper freight and insurance from the Atlantic and the lower high density charges.

On June 28, 1922, Geo. McFadden wrote to Lamar L. Fleming, of Anderson, Clayton & Fleming,[3] New York, as follows:

I understand your firm have sold about 35,000 bales average strict middling, 1'' to $1\frac{1}{8}$'' Western cotton, January to May shipment, to Southern Mills at 175 on March, while we are offering 225 on March.

As I told you yesterday, I think the competition in forward business should be limited, for the reason that if the larger firms would substantially agree on the basis for forward shipments that they could sell all the cotton they care to put on their books, and therefore under the circumstances it seems to me sensible to endeavor to secure as high a basis as possible on this forward business.

We have sold Southern Mills about 30,000 bales on a basis corresponding to the basis which I gave you yesterday, and we to-day sold about 1,000 bales at a somewhat higher basis, and I believe if you will elevate your basis you will get all the business you want.

Of course the profit in the business will depend very largely whether we have premiums or discounts, but at the present time it is impossible to express any intelligent opinion on this point; therefore, I think it is rather a mistake to assume we will have discounts on the immediate next year, as if we should have premiums, then the basis we are asking would not produce a profit.

I have written Mr. Bryant and Mr. Rivers to cooperate with your men in Charlotte and Savannah, as I think by cooperation and discussion we can get better results than would otherwise be possible.

What this "cooperation and discussion" refers to is perhaps to be inferred from that part of a preceding paragraph of the same letter, which says—

if all the larger firms would substantially agree on the basis for forward shipments, that they could sell all the cotton they care to put on their books.

Upon receipt of Mr. McFadden's letter, dated June 28, 1922, Mr. Fleming called by telephone Mr. H. N. Smith, the Charlotte (N. C.) representative of Anderson, Clayton & Co., and made inquiry regarding the low basis reported by McFadden. This appears from the fact that Mr. Smith wrote Mr. Fleming on June 29, 1922, to the effect that he had not made the sales mentioned in the first paragraph of Mr. McFadden's letter of June 28. Mr. Smith also sent to W. L. Clayton, of Anderson, Clayton & Co., a copy of his letter to Mr. Fleming.

That Mr. McFadden had in mind an arrangement by which the two firms would work together in the matter of selling basis to southern mills is further substantiated by a letter from Mr. Smith to Mr. Clayton on June 30, 1922, which stated, in part:

[3] Anderson, Clayton & Fleming is a separate firm from Anderson, Clayton & Co. However, all the partners in the former firm are partners in the latter firm, except L. L. Fleming.

Referring to my letter of yesterday, in which Messrs. McFadden complained to New York office that we were cutting the basis.

Mr. C. B. Bryant, their manager here, called on me this morning and suggested that we stay close together on the basis and keep it as high as possible. We told him we would be glad to do this as long as we sold our share of the cotton. He then gave me his offer sheet of June 26, showing his prices. After our conversation with Mr. Fleming I was surprised to note his prices cheaper than ours. Mr. Fleming referred principally to our basis of strict middling 1-1-1/16 north Georgia, for October, November, December shipments, which was reported to him as having been sold by this office at 150 on December. You will note from inclosed list[4] that they are offering this particular cotton at 50 points less than the Atlanta office. We have sold some, however, a couple of weeks ago, at 200 on, and at that time they sold to the same mills at the same price. So you see the cutting basis has not been here.

They are offering Texas, Oklahoma, Louisiana, strict middling 1-1-1/16, at 250 on December, while you are asking 250 on October.

We will always endeavor to work in harmony with our competitors as long as we don't lose any business.

From the above it is clear that Mr. McFadden's letter to Mr. Bryant (referred to in Mr. McFadden's letter of June 28 to Mr. Fleming, quoted above) was effective, since, as Mr. Smith said, "Mr. C. B. Bryant, their manager here, called on me this morning and suggested that we stay close together on the basis and keep it as high as possible," etc. This chain of correspondence, so far presented, clearly shows Mr. McFadden's effort to bring his firm and Anderson, Clayton & Co. together on selling basis.

On this same date, June 30, 1922, Mr. Fleming wrote to Mr. Geo. McFadden in part as follows:

I talked with our man Smith in Charlotte over the phone yesterday, and he told me that your people must have made some mistake. Just to show you how these things work, I quote you herewith a telegram received from Smith to-day:

"Have McFadden offer sheet before me. He is asking for strict middling north Georgia 1'' 1-1/16'' October, December shipment, 175 on December. This is 50 below my price. Texas strict middling same staple and shipment 250 on December. Houston wants 250 on October."

On June 30, 1922, Mr. Fleming sent the letters above quoted, and possibly some others, to Mr. Clayton, and stated in part:

I hand you herewith a file in regard to mill prices in the Carolinas.

I think it would be a very good idea if we could sort of run along the same track with Griffin and McFadden, but Charlotte tells me that McFadden's prices up State and in Canada for new crops are way below our basis, and sometimes I wonder if this thing is really practicable.

Mr. Clayton replied to Mr. Fleming on July 4, 1922, as follows:

I have your letter of the 30th, and return herewith your file about the Carolina business.

Referring to Mr. McFadden's letter, in which he says, "I understand your firm have sold about 35,000 bales average strict middling, 1'' to $1\frac{1}{16}$'', western cotton, January to May shipment, to southern mills at 175 on March, while we are offering 225 on March," will say that we have not up to date sold a single bale of western cotton to Carolina mills, new crop. I have looked carefully through our records to confirm my memory on this before making the statement.

The main reason we have sold nothing is that our offices in the Carolinas reported repeatedly that McFadden has been underselling us from 50 to 100 points. For a long time we were offering western cotton, strict middling, 1'' to $1\frac{1}{16}$'', at 300 on, but our people over there kept after us so long about our high basis that I finally consented against my judgment to reduce it to 250 on, where

[4] This list was the "offer sheet" of June 26, 1922.

it has stood for about a week now without any business. I am very glad that we have sold nothing at that basis, and am to-day raising it to 275 on.

Our Atlantic States offices have sold a total of about 15,000 bales, new crops, to southern mills. I have looked carefully over the copies of the sales confirmations and do not find a single bale sold at less than 200 on for strict middling, 1" to $1\frac{1}{16}$". Their basis for the last few days has been 225 on. I am raising it to-night to 250 on.

Somebody is giving McFadden incorrect information about what we are doing. I suppose this is only natural, and am sure that we oftentimes get reports about their activities which are not accurate.

As I have several times told Mr. McFadden, we are glad at all times to cooperate in the matter of basis, exchange information, etc., but I do not believe it is practicable to have any hard and fast understanding about selling basis, because it destroys that freedom of individual action which is so necessary in the cotton business.

If McFadden and ourselves were the only sellers, it would be a different story.

With reference to the letter from Messrs. Cooper & Griffin proposing that all sale notes for forward delivery carry a mutual margin clause of 2 cents per pound, will say that we received the same letter from Messrs. Cooper & Griffin, and replied as follows:

"We have carefully considered the matter mentioned in your letter of June 24. We think there is no question but what forward sales to mills at fixed prices should carry a mutual margin clause of say 2 cents per pound, as suggested by you. We seriously doubt, however, being able to get the cotton trade to agree on a provision of this kind and to live up to it. There are too many shippers, and they are too widely scattered to hold them together. We think it is a matter which will have to be left to the judgment and decision of each individual firm."

On July 4, 1922, Mr. Clayton in a letter to Mr. Smith acknowledged receipt of the latter's letters of June 29 and 30, and inclosed a copy of his letter of July 4, 1922, to Mr. Fleming, quoted immediately above, thus giving Mr. Smith his (Clayton's) views on agreements on basis. Mr. Clayton also said in his letter to Mr. Smith:

I think we are going to have a pretty stiff basis for at least 60 to 90 days, and if we will all stick to it and demand it, I think we will get it.

The use of the word "all" in the above quotation is puzzling. In view of the other letters quoted in this section this word might mean Anderson, Clayton & Co., and Geo. H. McFadden & Bro.; in other words, Mr. Clayton might be conveying the idea that he thought both firms should "stick to it." On the other hand it might refer to all sellers of cotton—a general statement of Mr. Clayton's opinion of the situation. Mr. Clayton's explanation of this sentence, in his own words, is that—

This "all" refers to all our selling offices in the South—Oklahoma City, Houston, New Orleans, Birmingham, Atlanta, and Savannah, all of which offices offer cotton for Carolina mills through H. N. Smith, our Charlotte representative.

Mr. Fleming, upon receipt of Mr. Clayton's letter of July 4, 1922, sent a copy of same, under date of July 7, 1922, to Mr. McFadden, and advised Mr. Clayton to that effect.

On July 6, 1922, Mr. McFadden wrote to Harriss, Irby & Vose, attention of Richard Harriss, in part as follows, a copy of this letter being sent to Mr. Fleming by Mr. McFadden:

I am in receipt of your letter of June 30, which I would have acknowledged more promptly except that I have been in Southampton for the past week.

In regard to the southern mill basis, in view of there being no increase in the acreage in the Carolinas and Georgia, and also on account of the low condition of the crop as reported by the Government, and taking into consideration a large consumption in these States, it looks to me as though we could have a high buying basis as compared with western cotton throughout the season in the Carolinas, and therefore we are rather inclined to again raise our basis, both for October, November, December, as well as our spring shipments to southern mills, as our experience has been that where the crop is small the basis is relatively high, and where the crop is large the basis is relatively cheap, and if you take into consideration the local consumption of the Carolinas, therefore it looks to me as though we are in for a very high basis in the Atlantic States next autumn and winter.

I will be in New York probably on Friday next and will hope to see you, as I am sailing for Europe on Saturday, July 15, on the *Olympic.*

To the above letter Mr. Harriss replied on July 7 as follows:

I thank you for your letter of the 6th instant, and my partners and myself concur in your views as to the possibility of a high basis in the Atlantic States next season. In fact, we have been feeling that way about it for some time and have not pushed forward sales with southern mills for Georgia and Carolina cotton.

As a matter of fact, our only sales of new crops to southern mills thus far have been western cotton.

Should we later on begin effecting any sales to southern mills for shipment from the Atlantics, I will get in touch with some of your partners and see how our basis compares with yours.

I note you expect to be in New York next week and are sailing on the *Olympic* July 15. I am leaving myself to-morrow for a motor trip and may not get back until Monday, the 17th; hence may miss seeing you before you leave. In any case, be assured of my hearty good wishes for a pleasant trip and a safe and happy return home.

On July 10, 1922, Mr. McFadden answered Mr. Fleming's letter of the 7th, and in referring to Mr. Clayton's letter of July 4 said, in part:

I entirely agree with Mr. Clayton as regards the basis, as it is impossible to fix any standard basis, as there are too many people in the business to do so, but I believe it is to our mutual interest to confer with you in discussing all questions in which we are mutually concerned.

Mr. McFadden then went on to say he had sent a copy of Mr. Clayton's letter to his (McFadden's) Charlotte representative.

Mr. Fleming on July 11, 1922, wrote Mr. McFadden that—

There is no question but that it is good policy for the larger concerns to try to work in harmony, especially from the head offices, but where those boys down on the spot are in keen competition I doubt the advisability of telling them much beyond letting them know we are trying to keep about in line with the basis.

The foregoing letters were from the files of Anderson, Clayton & Co. and Geo. H. McFadden & Bro. Mr. W. L. Clayton was given an opportunity to comment on the various letters from his files. Mr. George Stuart Patterson, one of the partners in Geo. H. McFadden & Bro., commented on the letters from the files of that concern.

Mr. Clayton said:

This correspondence speaks for itself. I do not think there was ever any other instance, before or since, in which we exchanged information with McFadden as to selling basis in the Atlantics. We made our own prices absolutely independently, without any reference to McFadden. There were many instances, as Mr. Smith himself states in one of his letters, in which McFadden was selling at prices considerably under ours; and no doubt there have been instances in which we were selling at prices under theirs; although in the cotton business competition is so keen that the prices of those firms working on a legitimate, nonspeculative basis run very close together, because the margin of profit is extremely small and does not permit of very much expansion or contraction. My letter of July 4 to Mr. Fleming points out that one of the main reasons we had sold so little in the Atlantic States, apparently, was the fact, as reported to us by our agents, that McFadden was selling at considerably cheaper prices.

* * * * * * *

And in this letter of July 4 I have told Mr. Fleming that I was on that day raising our basis 25 points. I made no request or suggestion of any kind to Mr. Fleming with reference to furnishing Messrs. McFadden with a copy of this letter or of informing them of its contents in any way. The truth of the matter

is that it was immaterial to me whether the information were given or not given, as I knew perfectly well that we were our own masters as to the making of our basis, and could change it over night or as often as we pleased, without any reference to what anyone else was doing. I also knew that, selling as we did perhaps only 4 or 5 per cent of the cotton bought by southern mills, any action that Anderson, Clayton & Co. might take about basis could not have any appreciable effect on the situation—general selling situation—in the Atlantic States. It is interesting to note that, according to Mr. Smith's letter of July 12, McFadden and other Texas shippers were still offering cotton at less than our basis.

Referring now to letter of July 11, 1922, from Mr. Fleming to Mr McFadden, there has been no agreement, understanding, or concerted action on this selling-basis proposition. I think our letters show that we regard it as entirely impractical. Even if we thought it was perfectly legal it could not result in any good to anybody.

I think I may once or twice have seen Mr. McFadden and told him what we were offering cotton at. I don't think it ever happened over twice in my life, and then only as a matter of general information, in the discussion of the cotton situation, and not for any particular purpose. It was not used as a basis for any understanding, or to influence him or me in any matter of changing or altering of basis of any kind.

Referring to the letter dated July 4, 1922, from W. L. Clayton to H. N. Smith: In the last paragraph I say, "I think we are going to have a pretty stiff basis for at least 60 to 90 days, and if we will all stick to it and demand it I think we will get it." This all refers to all our selling offices in the South—Oklahoma City, Houston, New Orleans, Birmingham, Atlanta, and Savannah—all of which offices offer cotton for Carolina mills through H. N. Smith, our Charlotte agent.

Mr. Patterson stated, among other things, in a signed statement regarding the above letters, that "it is absolutely silly for any two firms, or any combination of firms, to talk about fixing basis—agreeing upon a common basis at which they would sell to anybody. The competition is entirely too severe in the cotton business. If any such agreement were to be made, the only result would be that you would go out of business and the other people outside of any agreement would get the business."

It would appear, despite these statements, that attempts were made to effect an agreement on selling basis to southern mills in 1922.

Chapter IV

FINANCIAL AND OPERATING RESULTS OF COTTON MERCHANTS AND COOPERATIVES

Section 1. Sources and scope of information.

Cost, profit and investment figures were obtained by the commission for four years from a large number of cotton merchants handling about 10,000,000 bales of cotton in the period in question, or an average of nearly two and one-half million bales a year. In addition returns were obtained from six cooperative organizations handling in total more than 500,000 bales for one year.

Most of the information was obtained through correspondence. A large number of schedules were sent out by the commission, but, in order to obtain as many returns as possible, cotton firms were advised that if they preferred they could substitute either copies of their own profit and loss statements and balance sheets or copies of their income tax returns, together with a certain small amount of supplementary data.

The returns obtained and finally found usable fall into two groups: (1) those covering companies closing their books on a calendar year basis and, (2) those closing their books on substantially a crop year basis, varying from March 31 to August 31. The results for the former group cover 13 companies in each of the calendar years 1919, 1920, and 1921, and 15 companies in 1922. The results for the second group cover 34 companies in the crop year 1919–20, 43 in 1920–21, 50 in 1921–22, and 35 in 1922–23. The returns include the results of one or more cotton firms with headquarters in every State of the Cotton Belt, with the exception of North Carolina and Alabama. Aside from the fact that the results of the three largest spot cotton merchants were not obtained, it is believed that the data constitute a fairly representative sample of the financial results of cotton merchandising.

The three largest spot cotton firms, George H. McFadden & Bro., Anderson, Clayton & Co., and Harriss, Irby & Vose, despite repeated requests, declined either to furnish the information desired, or to permit the accountants of the commission to take it from their books. During the three crop years 1919–20 to 1921–22 inclusive, each of these firms sold an average in each year over 500,000 bales of cotton, whereas the six or eight largest concerns reporting to the commission averaged less than 200,000 bales in each year.

Because of the difference in the dates at which the books were closed, no attempt has been made to consolidate by years the results of the calendar-year companies with those of the crop-year companies, but the annual results for each group are shown in Appendix Tables IV, V, and VI. For the purpose of presenting the net results of cotton merchandising, however, the figures of both groups were consolidated for the entire period of four years. The period covered by

this consolidation, therefore, is slightly more than four years, although the figures in no case include results of any company for more than four years.

In computing the investment and profit the commission excluded all investment not employed in the business of cotton merchandising and all revenue items not derived from the same source. All companies reported interest paid, but in several cases it was found impossible to obtain the average borrowings. To obtain an estimate of the borrowings of these last-mentioned concerns, the rate of interest paid by companies reporting both interest and borrowings was employed and the borrowings computed by capitalizing the reported interest paid at the rate determined for companies reporting both interest and borrowings.

Section 2. Operating profit, expense, and income.

The following table presents in summary form the operating results for all cotton merchants reporting to the commission for four years combined. The results by individual years, separately for calendar-year and crop-year companies, will be found in Appendix Table IV.

Sales of cotton reported to the commission were net—that is, after the deduction of freight.

TABLE 12.—*Operating profits, expense, and income, in total amount and per bale, of all reporting cotton merchants*[1] *for four years between January 1, 1919, and August 31, 1923*

Item.	Total	Per bale
Bales sold	9,800,371	....
Net sales of cotton	$1,309,981,099.50	$133.66
Cost of cotton sold	1,206,361,337.52	123.09
Gross profit on cotton sold	103,619,761.98	10.57
General expense	55,274,972.99	5.64
Net profit on cotton sold	48,344,788.99	4.93
Loss (−) or gain (+) on futures	−19,147,417.44	−1.95
Total net profit	29,197,371.55	2.98
Interest paid	9,361,629.82	.96
Net income	19,835,741.73	2.02

[1] The number of companies reporting varied from 47 to 63 for the several years, the aggregate number of company years being 216.

From the foregoing figures it will be observed that out of a total sale of over a billion and a quarter dollars the cotton merchants reporting retained as gross profit one hundred and three million. This represented a gross profit on cotton sales of a little under 8 per cent and of 8½ per cent on the cost of cotton. General expenses, however, absorbed fifty-five million of the gross profit, and losses on futures operations nineteen millions, so that the total net profit obtained amounted to a little over $29,000,000, or about 2.2 per cent on the sales. After payment of over $9,000,000 interest charges the merchants had left slightly less than $20,000,000 as net income from the cotton business, or about 1.5 per cent on sales. There was a net loss on futures in every year for companies closing their books on both the calendar and crop year basis, except for the calendar-year group in 1919 and 1921, when this group reported gains.

These results are somewhat more informative if considered in terms of the per-bale results. These show that cotton merchants

during the four years under consideration bought cotton on the average at about $123 a bale and sold it for $133⅝, retaining as gross profit about $10½ per bale. Their average net profit, per bale, amounted to slightly less than $3, however, as their general expenses averaged over $5½ per bale and their losses on futures averaged nearly $2 a bale.

Section 3. Investment, profit, and rate of return.

The investment and rate of return of cotton merchants reporting were computed for each year for companies closing their books on a calendar-year basis and also for those closing their books on substantially a crop-year basis (March 31 to August 31). Investment figures have been compiled to show both the total and the proprietorship investment, the former figure including the borrowed funds employed in the business and the latter excluding them.

Profits before deducting interest paid and rates of return on total investment have been computed both before and after including the results of future trading. Similarly, profits after deducting interest paid and the rates of return on the proprietor's investment have been compiled both before and after including future operations. All these figures by years for both groups of companies separately are presented in Appendix Table V.

The following table presents the average investment, profit, and rate of return per company for all merchants reporting to the commission for four years combined, the number in each year varying from 47 to 63:

TABLE 13.—*Average invested capital and average annual net profits per company for all reporting cotton merchants*[1] *for four years combined, between January 1, 1919, and August 31, 1923.*

Average total funds employed	$904,405.85
Average net profit, excluding future results	$223,818.46
Average rates of return on total funds employed, excluding future results ....per cent	24.7
Average net profit, including future results	$135,173.01
Average rate of return, including future results ....per cent	14.9
Average total funds employed excluding borrowings	$419,563.70
Average net profit excluding futures after deducting interest paid	$180,477.59
Average rate of return on proprietary investment, excluding future results ....per cent	43.0
Average net profit including futures after deducting interest paid	$91,832.14
Average rate of return on proprietary investment, including future results ....per cent	21.9

During the four-year period the average return on total investment earned by cotton merchants amounted to approximately 25 per cent without adding gains or deducting losses on future operations. Including future results the average rate of return was only 15 per cent. The average returns on the proprietary investment were, of course, considerably higher, being 43 per cent without taking account of future operations and approximately 22 per cent after including the results of such trading.

The business of cotton merchandising appears to be one in which trading ability is as important as capital invested in respect to the profits obtained. The average amount of net profit per company

[1] The number of companies reporting varied from 47 to 63 for the several years, the aggregate number of company years being 216.

finally available for distribution was $91,832. As most of the companies are partnerships without salaried managers this amount would represent generally the average earnings of the group of partners managing the business of the company.

Section 4. Relation of size to operating expenses, gross margins, and rates of return.

The following table presents the results of all cotton merchants reporting to the commission for four years between January 1, 1919, and August 31, 1923, distributed according to size groups:

TABLE 14.—*Average profits and operating expense per bale and rate of return on total funds employed of all cotton merchants reporting for four years, between January 1, 1919, and August 31, 1923*

Annual sales (bales)	Gross profit per bale	Operating expense per bale	Net profit, excluding futures, per bale	Loss (−) gain (+) on futures, per bale	Net profit, including futures per bale	Interest per bale	Net income, interest deducted, per bale	Rate of return on total investment: Excluding futures	Rate of return on total investment: Including futures
								Per cent	*Per cent*
Less than 10,000	$8.62	$6.27	$2.35	+$0.57	$2.92	$0.88	$2.04	8.96	11.12
10,000-50,000	10.36	4.83	5.53	−1.99	3.54	.88	2.66	30.39	19.44
50,000-100,000	11.09	6.26	4.83	−1.13	3.70	.92	2.78	28.82	22.07
Over 100,000	10.55	5.71	4.84	−2.46	2.38	1.02	1.36	22.05	10.82

On the whole the results by size groups are not favorable to the largest merchants. One or more of the smaller merchant groups show better results in practically every item tabulated than does the largest size group. On the whole the 10,000 to 50,000 bale group appears to have the most favorable results. Except for the smallest size group this group shows the narrowest gross profit margin per bale ($10.36), while its operating expense figure ($4.83) is nearly a dollar a bale less than that of any other group. The interest of 88 cents reported by this group and also by the smallest size group is less than for either of the other two size groups. Owing to heavy future losses, however, its net income per bale after deducting future losses and interest is 12 cents less than the highest which is shown by the 50,000–100,000 bale group. Its rate of return excluding futures is the highest of any group but owing to the heavy future losses referred to its rate of return including these transactions is only second highest, the 50,000 to 100,000 bale group showing slightly better rates. In this connection it would be of great interest to have also the results of the three largest companies, who refused this information and who are involved in charges of manipulating the futures market.

The results by years and by size groups are presented in Appendix Table VI separately for companies closing their books on the calendar-year and fiscal-year basis.

Section 5. Operating results of cooperative marketing associations.

The commission procured financial statements of six of the cooperative marketing associations for the marketing of the crop of 1922. As the fiscal years of these organizations ended during the period from June 30 to September 30, 1923, their results are closely comparable,

as far as the period covered is concerned, with the results of those merchants in the year 1923 who closed their books in the period March 31 to August 31, 1923.

The associations, whose figures were procured, were the North Carolina Cotton Growers, the Texas Farm Bureau Cotton Association, the South Carolina Cotton Growers Cooperative Association, the Arizona Pima Cotton Growers, the Arkansas Cotton Growers, and the Staple Cotton Cooperative Association. Two of the associations in this group, however, the Arizona Pima and the Staple Cotton Cooperative, are definitely staple cotton associations.

The Arkansas Cotton Association, moreover, contains a large number of producers located in eastern Arkansas who raise cotton of a staple of $1\frac{1}{16}$ inches and above, so that the figures for this association are also very largely affected by the factor of staple.[1] According to the commission's information, staple cotton is not so important an item in the case of the Texas and the two Carolina[2] associations, as in those of the three associations previously mentioned. In presenting the results, therefore, the figures of the Arizona, Arkansas, and Staple Cotton Associations have been grouped together as those of staple associations, while the figures of the Texas and two Carolina associations are presented as those of nonstaple associations. The results for all six cooperatives combined are also given. The following table shows the 1922–23 results per bale for each of these three groups of cooperatives in comparison with those of the 35 cotton merchants reporting to the commission for the year.

TABLE 15.—*Prices, expenses, and gross profits of cotton merchants compared with those of cooperative associations for the crop year 1922–23*

	35 cotton merchants	3 nonstaple cotton cooperative associations	3 staple cotton cooperative associations	6 cooperative cotton associations
Bales sold	1,796,610	286,728	227,683	514,511
Cost of cotton to merchants and growers' realization from cooperatives [1]	$122.09	$124.98	$136.14	$129.92
General expense	5.26	5.57	6.17	5.83
Interest paid	1.01	1.55	2.24	1.86
Loss on futures	5.47			
Net income	.32			
Total gross margin	12.06	7.12	8.41	7.69
Selling price	134.15	[2] 132.10	144.55	[2] 137.61

[1] So far as the cooperatives are concerned, the realization shown for the grower does not represent the amount paid him, as certain reserves are set up by the associations. Equitably, however, these reserves belong to him, and it is contemplated that they ultimately will be returned to him.
[2] This is a net figure after deducting certain future losses of one of the associations.

In considering these results, the figures for the merchants should not be compared with those of the staple associations because, doubtless, the proportion of staple cotton handled by these staple associations greatly exceeded that handled by the merchants. The case

[1] Data furnished by the association show that nearly one-half of its sales for the year in question were of cotton $1\frac{1}{16}$ inches and above.
[2] About 32 per cent of the cotton received by the South Carolina Association in 1922–23 was $1\frac{1}{16}$ inches and above, but scarcely any of this cotton was sold during the year and it is not, therefore, included in the results presented.

is different in a comparison between the merchants and all cooperatives combined. A few of the merchants included are large handlers of staple cotton and many of them sell some staple, so that such a comparison might not be an unfair one. On the whole, however, it may be that the proportion of staple cotton included in the sales of all six of the cooperatives is considerably greater than that found in the sales of the merchants. Taking the basis most unfavorable to the cooperatives, that is, the results of the nonstaple associations, the comparison with the merchants is favorable to the cooperatives in several respects. The average selling price of the cooperatives was $2.05 a bale lower than that of the 35 merchants whose figures are presented. Despite this comparative handicap, however, the growers' equity on the sale made through the cooperative was $2.89 higher, on the average, than the price paid by the merchant for his cotton. Moreover, in this connection it is well to bear in mind that the cost of cotton to the merchant is far from being the price paid the grower, as the bulk of the cotton of the average cotton merchant reporting is obtained not from the producer directly but from local or other dealers.

The average general expense of the nonstaple cooperatives of $5.57 per bale was approximately 31 cents a bale higher than that of the merchants and their interest paid was 54 cents a bale greater. These advantages of the cotton merchants in respect to lower interest charges and handling expense were more than offset by their heavy losses on futures, averaging $5.47, to say nothing of the profit retained, averaging 32 cents a bale. Reference to Appendix Table IV shows, however, that the loss of the merchants on futures in 1923 was by far the largest loss sustained in any year for any group of companies. But it is also true that the net income per bale of 32 cents was only one-fifth to one-tenth of the net income obtained by merchants in other years.

With one exception the associations whose figures are presented show no future operations. In the case of one of the associations there were losses on futures which were deducted from the sales since they applied to only one of the six associations. It should also be noted that a few of the merchants did not show any future operations.

The results for the staple associations, which as stated can not properly be compared with those of the merchants, show an equity for the grower between $11 and $12 a bale higher than that of the nonstaple associations. Such a result might well be expected in view of the greater value of the cotton sold. The general expense of the staple associations was 60 cents per bale higher than that of the nonstaple associations, and the interest charge was 69 cents higher, so that the staple associations showed a total cost of handling of $8.41 per bale as compared with $7.12 for the nonstaple organizations.

Because of the fact that the commission has no adequate data for cooperatives except for 1922–23 the comparisons made of the results of merchants and cooperatives can not be regarded as conclusive except for this year. The crop year 1922–23 witnessed a considerable advance in cotton prices, from which it is likely that the cooperatives obtained some benefit, especially as they did not generally hedge. Whether these associations would be able to show as advantageous results in a year of declining prices can be determined only by actual experience.

The following table presents certain important figures for each of the six cooperative associations:

TABLE 16.—*Selling price, expense, and interest per bale for six cooperative marketing associations*

Number of association	Net selling price [1]	General expense	Interest	Total expense and interest	Producer's equity
No. 1	$161.20	$6.39	$1.55	$7.94	$153.26
No. 2	141.74	6.57	3.19	9.76	131.98
No. 3	144.60	6.02	1.97	7.99	136.61
No. 4	128.96	6.19	1.95	8.14	120.82
No. 5	138.36	5.36	1.01	6.37	131.99
No. 6	131.04	4.83	1.46	6.29	124.75
Average	137.61	5.83	1.86	7.69	129.92

[1] A loss on futures was deducted in the case of one association before arriving at this price.

CHAPTER V

FUTURE TRADING AND DELIVERIES

Section 1. The cotton future contract.

The two Senate resolutions in compliance with which this report is made direct that inquiry be made into the operations of the cotton futures exchanges. As necessary to a better understanding of these operations consideration is given in this and succeeding sections of this chapter to the nature of cotton futures contracts, the provisions of the cotton futures act under which the exchanges operate, and the technique of the futures market.

Futures contracts in general are treated in considerable detail in the commission's report on "Future trading operations in grain."[1] It will be sufficient here to make reference to that general treatment, repeating only the definition, and emphasizing in the present introductory discussion those aspects of the future contract peculiarly applicable to cotton futures.

In the report referred to above the future contract is defined as "an agreement on the part of the seller to deliver, and of the buyer to receive and to pay a certain price for, a certain kind and quantity of a commodity, at some specified future time, under conditions prescribed by an exchange or understood in the trade."

In cotton futures the "conditions prescribed by the exchange or understood in the trade" under which the contract is made must be in harmony with the provisions of the United States cotton futures act. These provisions are set forth elsewhere. (See p. 100.) The so-called section 5 contract—i. e., the contract provided for in section 5 of the act—is drawn up in precise form in the by-laws and rules of the futures exchanges, and the forms for the contract required by the New York and New Orleans Cotton Exchanges are practically alike. (See Appendix I.)

The contract drawn by the two principal cotton exchanges[2] instead of stipulating an exact number of bales calls for about 100 square bales, but specifies an exact weight (50,000 pounds).[3] The provision thus excludes the so-called odd-lot contract—the contract covering less than 100 bales. The contract specifies middling cotton, at a certain price per pound, but provision is made for the delivery of other grades with adjustment in price in accordance with the provisions of the futures act. The two exchanges prescribe that cotton

[1] Report of the Federal Trade Commission on the Grain Trade, Vol. V, "Future trading operations in grain," pp. 44–51.

[2] On the American Cotton and Grain Exchange at New York, however, prior to its suspension, the unit of trading was 5,000 pounds in about 10 square bales. This unit of trading, therefore, was one-tenth of that prevailing in both the New York and New Orleans Cotton Exchanges, and thus resembles the 1,000-bushel trading unit of the Chicago Open Board, which is one-fifth of the 5,000-bushel unit on the Chicago Board of Trade and other principal grain future markets.

[3] Sec. 44, paragraph (j) of the by-laws and rules of the New York Cotton Exchange states that "The receiver shall not be required to accept any tender varying in weight more than 1 per cent from 50,000 pounds.

must be delivered from licensed warehouses in their respective ports, and the New Orleans Exchange requires that a single delivery be made from not more than two licensed warehouses in the port of New Orleans. In either market delivery must be made between the first and last days, inclusive, of the stipulated month, the day of delivery within such month being at the option of the seller. The seller, however, is required to give notice of delivery to the buyer, which under the cotton futures act and the by-laws and rules of the two exchanges must be served five business days in advance of the day of delivery. The contract provides that the cotton shall be of or within the grades for which standards are established by the Secretary of Agriculture, excluding those grades prohibited from being delivered on a contract by the futures act, and that it shall be subject to exchange inspection.

Contracts are entered into orally in transactions at the "ring" (a certain place on the floor of the exchange), but are in due course established by the signing of printed forms. While still merely oral, the contracts are presumed to have been made in the prescribed form for the written contract and have under the exchange by-laws the same standing, force, and effect as the written contracts, provided that written notice of the contract is given by one of the parties to the other during the day on which the contract is made or on the next business day thereafter. This notice or confirmation takes the form of a slip showing, as the case may be, to whom sold, or from whom bought, the quantity of cotton (i. e., the number of contracts, a contract covering 100 bales), the month of delivery, and the price per pound for middling cotton. The party signing agrees to carry out the contract in accordance with the by-laws and rules of the exchange and the United States cotton futures act.

The general form and content of the contract, therefore, is fixed by the United States cotton futures act and the exchange rules; only the price per pound for middling cotton and the month of delivery are left to the buyer and seller to agree upon. While all months are traded in, only January, March, May, July, October, and December are dealt in to any considerable extent.

The parties to the contract are held strictly to its terms under the law; that is, at the maturity of the contract, the seller must deliver and the buyer must receive the cotton called for by the contract. There usually is, however, under these contracts, as under other similar future contracts, an offsetting of sales and purchases against each other before the maturity of the rights and responsibilities upon such contracts as call for delivery at the same time. The broker is thus relieved of two obligations that cancel each other. The long or short customer whose contract is thus settled is protected by the substitution of another principal at the other end of his trade. In consideration of the privilege of thus making substitutions of new principals on contracts, the broker guarantees all contra parties on future contracts of his customers—performance by the seller is guaranteed to his buying customer and by the buyer to his selling customer.

Section 2. Cotton exchange rules.

The more important cotton exchanges in the United States are not organized for the purpose of trade or profit of the association as

such, but rather of the individual members thereof. The purposes of the New Orleans Cotton Exchange, as stated in its charter,[4] are to "provide and maintain suitable rooms for a cotton and commercial exchange, * * * to adjust controversies between its members, to establish just and equitable principles, uniform usages, rules, and regulations," etc. The purposes of the New York Cotton Exchange, as stated in its charter,[5] are similar to the foregoing, and likewise those of cotton exchanges in several other cities, such as Galveston (sec. 5 of charter) and Houston (sec. 2 of charter). In fact, many of the cotton exchanges organized in recent years have copied the charters, by-laws, and rules of the older exchanges, making such changes merely as seemed necessary for local reasons.

The cotton exchanges are directed and their policies formulated by elective boards of directors. The chief administrative official is the secretary or superintendent. Committees, composed of members, are provided (either by appointment or election) to supervise the various departments of exchange organization. In addition the exchanges usually have minor officials such as quotation reporters, inspectors, etc., and other employees.

The original rules and regulations of the older cotton exchanges have been changed, amended, and repealed from time to time, so that those in use to-day are substantially different. It is the practice of the exchanges, apparently, to consider rules carefully before changing them. It was stated to representatives of the commission by well-informed members of the exchanges that, while the exchanges were willing and anxious to adopt rules which would improve conditions in the trade, the benefits from the change must be apparent. In other words, changes were made only after long and careful consideration.

From the study of the rules and regulations of the cotton exchanges it is believed that there is still room for improvement, especially in one very important respect, namely, in the matter of rules and regulations pertaining to the elimination of corners or squeezes or manipulation of any kind. The results of the commission's inquiry show that such rules and regulations are inadequate to prevent manipulation of futures.

Representatives of the cotton exchanges freely admitted that the different positions, or option months, were frequently "manipulated." It was stated that future brokers often advised their customers not to attempt to hedge in the near-by position, or month, because of the danger of manipulation.[6] These assertions were more generally made by representatives of the southern cotton exchanges and usually referred to the New York cotton futures market. Several well-informed members of the latter exchange acknowledged that these assertions were true in large measure.

In 1918 the Secretary of Agriculture recommended that the cotton futures exchanges should arbitrarily control the future price of cotton to the extent that prices should not be allowed to fluctuate more than 2 cents either way in a day. The recommendation was called for by the unsettled price conditions then obtaining. It was accepted by the exchanges and put into effect on October 4, 1918, and has been main-

[4] Article II, charter New Orleans Cotton Exchange.
[5] Sec. 3, charter New York Cotton Exchange.
[6] This advice was given at times because the market was too narrow.

tained ever since. If the price of an option moves up 2 cents during a day trading in that option practically ceases for the day, the same being true if the price declines 2 cents. The limitation is figured from the closing bid price of the previous session if prices during the day are all on one side of such closing; but the movement upward can not go more than 2 cents above a previous low nor downward more than 2 cents below a previous high price, made within the same day. Trades must not be made at prices varying beyond these limits.[7] This regulation has a tendency to prevent manipulation, but is not sufficient to eliminate the practice.

In one important respect the rules of the two large exchanges dealing in futures, New York and New Orleans, are of considerable assistance to a speculator attempting to corner the market or squeeze the shorts. Thus, the rules of the New York Cotton Exchange provide in case of an unintentional default on delivery that the contract shall be settled upon the basis of the price of the current month, plus a penalty of one-half cent per pound, and also any additional loss that may prove to have been incurred not covered by this penalty. If the default was intentional the foregoing basis of settlement is prescribed and in addition thereto the defaulting member may be expelled.[8] Under the rules of the New Orleans Cotton Exchange a member failing to deliver or receive cotton on a future contract is liable to a fine of twenty-five one hundredths cent per pound in favor of the other party to the contract, and in addition must settle at the market price for spot cotton, provided the default was unintentional and not premeditated.[9] If the default was intentional the defaulting member is liable to suspension or expulsion under Article VIII of the constitution of the exchange.

These rules regarding default on delivery on future contracts are stringent and tend to make corners and squeezes more disturbing and violent. If the rules regarding default on delivery were along the lines of those of the grain exchanges, considerable amelioration of the effects of corners and manipulation probably would result. Under the rules of the Chicago Board of Trade, for example, a member defaulting on a future contract must pay a price held to be the true commercial value of the actual grain, and must also pay as liquidated damages a penalty of from 1 per cent to 10 per cent of this value. Such cases of default are handled by a special committee appointed by the president of the exchange, which determines the price to be paid and the amount of the penalty.[10] It does not appear that a similar rule could not be devised for the cotton trade, and in view of

[7] The rule (26 at New York; 1-A at New Orleans) has been applied in a number of instances, both at New York and New Orleans.
[8] Rule 7.
[9] Rule 25, sec. 1.
[10] Rule XXIII, sec. 1. In case any property contracted for future delivery is not delivered at maturity of contract the president shall appoint a committee of three from the membership at large, to be approved by the board of directors, which committee shall determine as nearly as possible the true commercial value of the commodity in question on the day of the maturity of the contract, and the price so established shall be the basis upon which settlement is made.

It shall be the duty of the committee in determining the true commercial value of the commodity under this rule to ascertain its value in other established markets, or for manufacturing or consumptive purposes, in this country, together with such other facts as may justly enter into the determination of its value.

As liquidated damage the seller shall pay to the purchaser not less than 1 per cent nor more than 10 per cent of the value of the commodity as established by the committee; the percentage, within said limits, to be such as in the judgment of the committee may be just and equitable.

Settlement shall be made without delay and the damage as determined under provisions of this section shall be immediately due and payable.

This section shall not be construed as applying to any parties having the property both bought and sold, in all of which cases settlement shall be made on basis of prices established by the contracts in such instances

the complaints of manipulation of the cotton-futures markets, particularly New York, every effort should be made to minimize the possibilities of corners and squeezes and all other forms of manipulation.

Section 3. The United States cotton futures act.

Prior to August 18, 1914, when the present cotton futures act was passed, and since 1884 more than a hundred bills variously seeking to control or abolish cotton-futures exchanges had been introduced. There were many persons, both in and out of Congress, at the time of the passage of the act who favored legislation abolishing the cotton-futures exchanges, but the opinion that the exchanges, under certain restrictions, might perform a useful function finally prevailed and resulted in regulatory legislation.

The House Committee on Agriculture, which recommended for passage the bill enacted into the present law, held that hedges on the exchanges were the only effective means then available whereby the merchant or the manufacturer could avoid speculation; that the purely speculative transactions which were required to sustain the exchanges, if free from manipulation, tended to stabilize prices; and that the manipulation of prices through operations on the exchanges constituted their chief abuse.

Manipulation on the exchanges, it was held, arose from the following conditions:

> (1) Multiplicity of standards of classification used in the conduct of the cotton business in various parts of the country; (2) a system (on the New York Cotton Exchange) of so-called fixed differences between values of grades used in the settlement of exchange contracts; (3) the delivery upon exchange contracts of low grade or inferior cotton, which the majority of spinners could not use in their factories; (4) the failure of tenders of cotton on exchange contracts to show the grades to be delivered; (5) the so-called pro forma delivery practice, under which long periods of time often elapsed before the person obligated by an exchange contract to receive cotton was informed of the grades, although he had been forced through the exchange rules to pay for it at the time fixed for delivery by the opposing party to the contract.[11]

The cotton futures act was designed to correct the above conditions by the establishment of certain governmental controls and certain trading rules. On all sales of cotton for future delivery made on an exchange a tax of 2 cents is levied for each pound of cotton involved, except that contracts which comply with certain requirements specified by the act are exempted from the tax. These requirements are set forth in sections 5, 6a, and 10 of the act. The requirements of each section constitute those for a separate contract.

A "section 5" or "basis" contract must, in addition to other material terms, provide (1) for the use of grades of the official cotton standards of the United States promulgated by the Secretary of Agriculture, who is empowered by section 9 of the act to set up and promulgate standards of cotton classification; (2) for the specifying of a basis grade which must be a grade tenderable under the act, middling being deemed the basis in the absence of specifications; (3) for the use of actual commercial differences in the values of the respective grades in the settlement of the contract, which the Secretary of Agriculture is authorized in section 6 to determine; (4) for the exclu-

[11] The United States Cotton Futures Act, by Francis G. Caffey, Solicitor, U. S. Department of Agriculture, in Service and Regulatory Announcements, No. 5, U. S. Department of Agriculture.

sion from delivery of certain low-grade and inferior kinds of cotton; (5) for the tender of the full number of bales and full weight as stipulated by the contract; (6) for the settlement of contracts on the basis of the classification of cotton tendered under regulations promulgated by the Secretary of Agriculture; (7) for advance written notice of the date of delivery; and (8) for a written notice or certificate on or prior to delivery identifying each bale with its grade.

The "section 6a" contract (first provided for in the revision of the law of August 11, 1916) contains, in addition to the provisions of the section 5 contract not inconsistent with those required in section 6a, the provision that in the case of the tender of grades other than the basis grade the parties to the contract may at the time of the tender agree as to the price of grade or grades so tendered, and, in the event they do not agree, the buyer has the right to demand the delivery of the basis grade at the price specified in the contract. Under a section 5 contract the seller elects any deliverable grade or grades in fulfillment of the contract. Under a section 6a contract the buyer may demand delivery of the basis grade.

A "section 10" or "specific" contract must specify, in addition to other material terms, the grade, type, sample, or description of the cotton involved and must provide that cotton of the kind specified and no other shall be tendered or delivered and that delivery shall not be avoided[12] by means of "set-off" or "ring" settlements. Under this contract the purchaser can be sure, as he can not under a section 5 contract, of getting cotton of any grade, quality, or length of staple which was contracted for.

Correction of the conditions recited above as contributing to the manipulation of price on the exchange was thus attempted through the act. Instead of standards of classification varying with the locality, "middling" denoting one thing in one market and another thing in another market, as was the situation prior to the passage of this act, standards fixed by the Government became general, since contracts dealt in on futures exchanges, if exempted from the prohibitive tax, must relate to cotton classified in accordance with the Government standards. Moreover, quotations on spot cotton, issued by exchanges designated by the Secretary of Agriculture as spot markets, must be based on Government standards of classification.

So, also, the settlement of the exchange contract through the system of so-called fixed differences, which prevailed on the New York Cotton Exchange, gave way to a settlement by a system of commercial differences. Under the old practice differences in the values of the upper and lower grades from the basis grade were fixed by the arbitrary rulings of exchange committees, these differences often standing for a considerable period during which the relative market values of different grades of spot cotton were changing. Not only might a settlement thus be forced on a basis of fictitious values as compared with spot, but the market could be manipulated easily within certain limits. The act requires the allowances for grades, other than the basis, to be made for a future market having no bona fide spot market (such as New York) on the average of differences found to prevail in certain markets designated by the Secretary of Agriculture, these differences to be arrived at

[12] The United States cotton futures act uses the word "effected."

each day under the supervision of the Government; and for a futures market having a spot market (such as New Orleans) on the differences prevailing in its own spot market.

To prevent the delivery of low grades and inferior cotton which the seller under conditions prior to the passage of the act had a right to make, and which, it is claimed, depressed the price of the future contract, the present contract is required to contain a clause prohibiting from delivery cotton described as that which—

> because of the presence of extraneous matter of any character or irregularities or defects, is reduced in value below that of low middling, or cotton that is below the grade of low middling, or, if tinged, cotton that is below the grade of strict middling, or, if yellow-stained, cotton that is below the grade of good middling, the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple or of immature staple, or cotton that is "gin cut" or reginned, or cotton that is repacked, or "false packed," or "mixed packed," or "water packed."

Under conditions as they were prior to the enactment of the cotton futures act, tender might be made without description or identification of the cotton proposed to be delivered, introducing an unnecessary element of uncertainty of a nature to depress the price of the contract. There might elapse even a considerable period of time, after payment was made for cotton contracted for, before the buyer was informed of the grades tendered. To meet this situation contracts under the cotton futures act must provide that on the fifth business day prior to delivery written notice of the date of delivery be given. Contracts must also provide—

> that, on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, identifying each bale with its grade.

Differences used in settlement of contracts for grades above and below the basis must be based on the value of spot cotton on the sixth business day prior to the date fixed for delivery; that is, on the business day immediately preceding that when notice of delivery is served.

Section 4. The cotton futures market and its technique.

The place of the futures market in the cotton trade.—The cotton futures market was not developed as a channel of trade through which the cotton grower disposed of his crop and the spinner procured his supply of raw cotton. Comparatively little actual cotton has ever changed ownership through the buying and selling which take place on the cotton futures exchanges.[13] The cotton futures market developed rather as an auxiliary institution connected with the speculation in cotton prices, the financing of the cotton trade, and the counterbalancing of business risks.

The last-mentioned use is the chief use which the cotton merchants make of the future contract, a transaction in cotton futures being made to reduce the speculative risks from changes in spot cotton prices.

[13] In 1921–22 the future contracts executed on the New York Cotton Exchange represented 78,361,700 bales of cotton, whereas the total quantity of cotton delivered on future contracts in New York during that year amounted to only 546,800 bales. Similar figures for New Orleans were: Contracts executed, 40,701,700 bales; deliveries, 101,400 bales.

The growth, the handling, and the storage of cotton, and the equalization of the supply to meet mill requirements from month to month between crops, involve a protracted period of financing with many variations of price and changes of ownership. During this carrying period the anticipation of future prices is of almost as much importance to the cotton and textile world as are current prices. The person whose business, as merchant, as manufacturer, as banker, or whatsoever, necessitates a direct or indirect financial interest in spot cotton at current prices may wish to find a means of protecting himself against a change in price before his commitment terminates. The person whose business necessitates the making of engagements involving the procurement of cotton at some future time is likely to be even more interested in the future price of cotton than in its present price, and such a person may be eager to protect himself at once, for example, because of the sale of textiles for forward delivery, as regards the price at which his future supply of cotton is to be obtained. In brief, wherever a commercial transaction involves risk as regards the price of spot cotton in the future, the futures market affords the opportunity for "hedging" (by a purchase of futures contemporaneously with the sale of goods or by a sale of futures contemporaneously with the purchase of cotton, for example) in a way to counterbalance in large measure the risk from price changes. "Hedging" will be more easily understood after the technique of future trading has been considered and will be treated in section 8.

Certain conditions connected with the futures market enable it to focus there nearly all price determining influences:

1. There are but two important cotton-futures markets in the United States, the New York Cotton Exchange and the New Orleans Cotton Exchange,[14] and these operate in almost instantaneous intercommunication, each receiving immediate information of every price made in the other, and the two carrying on almost a constant interchange of orders. These American futures markets, interrelated as they are with the Liverpool cotton futures market, constitute a remarkably close-knit international market.

2. A wide range of grades and types of cotton are deliverable upon a future contract, and this enables the futures market, though quoted in terms of the price of middling cotton, to indicate the trend of cotton prices in general, except where manipulation or other special conditions vitiate the relation between spots and futures.

3. The futures market expresses anticipation of value in the delivery month named in the future contracts. The nearer future prices, barring artificial disturbances or manipulation, focus the judgment of cotton men regarding immediate prospects of cotton values; the prices of the more-distant futures represent the prevailing present judgment as to what cotton values are mostly likely to be a longer look ahead. That future prices are accepted as expressing the general cotton-price situation as evidenced by the fact that business in spot cotton is so largely conducted in terms of prices made on the basis of future quotations.

In order that the relations of spot prices and future prices may be better understood, it must be borne in mind that only the futures

[14] The future trading in cotton through the American Cotton and Grain Exchange, New York City, amounted in the year 1921–22 to only 4.5 per cent of the total volume of all the future trading in the United States.

market possesses the facilities for bringing all the transactions of the country into focus at but two small and closely connected trading rings. In the very nature of things the spot market is unable to develop any such highly unified institution of price making and price registration—spot trading necessarily being conducted at a vast number of scattered points, wherever actual cotton is to be bought and sold. Thus it becomes clear why the highly developed futures market must tend to have a very considerable influence in determining cotton prices, whatever the locality in which spot cotton is bought and sold. General market conditions, expressing themselves in a broad market, rather than the conditions prevailing in the particular locality, largely determine the value of cotton in that locality as well as elsewhere.

It is not the coincidence of spot price variations with the variations in future prices, but the development of inconsistencies in price between spots and futures, which is the phenomenon requiring explanation and may, if prices are correctly quoted, indicate imperfect functioning on the part of spot or futures market. Wherever concentration of trading interests or other power of manipulation gives artificial control of future prices or undue influence upon them, the operation of the future trading system as a method of anticipating future values of cotton is marred or destroyed, and the relation of spot prices to future prices probably will be disturbed.

The elements of cotton future trading.—Trading in cotton futures, in its elementary aspects, is a fairly simple subject. The development of future trading through many decades, however, and its application to various phases of cotton commerce, have resulted in the development of practices and the establishment of highly organized methods which appear elusive and complicated.

It is easy to understand the elementary form of a future contract in which A agrees to deliver to B 100 bales of cotton in a future month at a given price. It is easy to see, also, that until the organization of some focal market for such trading, a party wishing to enter into such a contract might find it difficult or impossible to discover another party willing to take the other end of the trade. This difficulty would recur whenever a party to the original contract (let it be the seller) sought a new party, when his need of the original contract has come to an end, to whom to transfer his responsibility by a purchase which would offset and in effect cancel his previous sale.

Persons and concerns interested in future contracts are widely scattered, and they wish to be in position to obtain such contracts when they want them and to get rid of the liability when they no longer need them, especially if these contracts are to be of use as protection against price changes on spot transactions, since the future trade must be made at the time when it is judged best to make the spot transaction. To meet such needs, among others, central futures markets have been developed, where intending traders from all over the country, and also from abroad, may register their bids and offers and buy and sell at a price.

Most of the real traders on such an exchange are not personally in the market at all. The trades are actually executed by a comparatively small number of members of the exchange, acting chiefly as brokers, any one of whom, however, is free at any time to speculate in cotton future contracts for his own account.

A secondary consequence of the situation by which scattered traders have their purchases and sales handled by a market of brokers is the development of special relations between the customer as principal and the broker as his agent, on the one hand, and of another set of special relations between brokers in their dealings with each other on behalf of their principals. The broker is authorized by the rules of the exchanges to treat contracts made for his customers as if they were made for himself, specifically with reference to settling them by offset; and the broker in return guarantees the contract to his customer, who is his principal. The latter is therefore without concern as to who may be the principal at the other end of his trade. In fact, he is not informed of the name of the other party and is informed as to who is the broker on the other side merely as a safeguard against the "bucketing" of his order and not at all because the financial responsibility of the other principal on the contract, or even of the other broker, is of interest to him, as it certainly would be in an ordinary contract of sale.

By such means a maximum degree of facility in the transfer of the obligations arising out of future contracts is developed. Either initiator of the original contract referred to for illustration may leave or enter the futures market at will without the necessity of consulting the other party to the original contract. In fact, it becomes unnecessary for the person buying or selling through a broker even to know with what other broker the contract has been executed.

Notwithstanding the facility with which the system enables any buyer or seller to open and close contracts at will, the obligation of the contracts nevertheless remains intact, so that any purchaser or seller of a future may confidently expect delivery of cotton bought by way of the futures, and may confidently expect payment upon delivery of cotton thus sold. Indeed the enhanced responsibility of the broker doubtless means a much less frequent failure of specific performance, as regards the principal on a contract made through a broker, than in the case of ordinary purchases and sales.

This freedom of all parties to close contracts or to hold till maturity and fulfillment at will is rendered possible by the fact that, through the method of offsetting and settlement by the payment and receipt of balances, no matter how many buyers and sellers may have come in and gone out of the market, the contracts ultimately remaining for fulfillment by delivery will be between those who, under the prevailing market conditions, on the one side wish to make delivery and on the other side to take the cotton.

A weakness of the system appears to go with its advantages. It appears not to yield as much knowledge of prevailing market conditions to outside future traders, for whom the brokers are technically merely agents, as it does to the brokers who operate within the exchange. Large speculators, who are presumably members whether they execute their own trades or employ brokers, however, have this intimate knowledge of pit conditions and other conditions. With respect to this situation it might be appropriate to establish public supervision in order to prevent the practice by insiders of activities adverse to the interests of the outside clientele which it is the primary function of the brokers to serve.

The occasion for rules governing future trading.—The cotton futures market is characterized by a comprehensive system of rigid rules,

especially as compared with the spot cotton markets. The chief reasons for such a difference in degree of regulation are not difficult to grasp. In the first place, as already indicated, those taking part in future trading need a definite basis of understanding expressed in established rules because they represent widely scattered and varied interests, among others, the numerous hedgers, whether cotton merchants or spinners, a considerable number of cotton futures speculators, and the two small groups of futures brokers at New York and New Orleans. When actual cotton is bought and sold, on the contrary, the parties to the trade make a specific agreement regarding prices and the delivery of certain designated cotton. The terms of such a transaction are relatively complete, and the relation between the parties is relatively direct. Moreover, in a spot transaction the making of the agreement will generally be followed by actual delivery. With respect to such transactions there is no obvious need of much regulation beyond that which is provided by ordinary commercial law. The future contract, by contrast, does not relate to any specific cotton, only broadly limiting the range of quality deliverable in fulfillment of the contract.

The future contract may be satisfied by delivery of any sort of cotton within a wide range of specified qualities. The purpose of this policy is to make the contract so general as regards the cotton represented that the price of a future may best represent the value of merchantable cotton of average grade unaffected by corners and manipulations designed to exploit variations in the crop from year to year or other variations in supply and demand. The system of offset and substitution of future contracts has been developed to a remarkable degree, largely as a speculative convenience, but also largely in recognition of the fact that avoidance of risk rather than the disposal or procurement of cotton, is a primary function of future trading.

The adaptability of a contract so abstract as regards the commodity to be delivered and the final price to be paid, and so abstract also as regards the parties who eventually may fulfill the contract, necessitate the development of rules to the point where nothing regarding the transaction remains to be specifically agreed upon except the delivery month and the price.

The multiplicity of future trading rules is largely to be explained by the aim, on the one hand, to make the contract perfectly general as regards the cotton deliverable and its obligations perfectly transferable as between its parties, and yet, on the other hand, to make it perfectly enforcible by any party who may wish to demand the acceptance or delivery of cotton as provided in the contract. Such demand is of course relatively infrequent and therefore delivery is seldom made.

A further reason for the development of rigid rules covering trading in cotton futures lies in the fact that future contracts have to be executed at one or the other of two points in the United States, the New York or the New Orleans market, and that those desiring to make such contracts can not possibly meet to transact their own business but are compelled to rely upon brokers and other market agencies to effect the contractual connection between these distant principals who are unknown to each other. Under such conditions dangers of irregularity, or of want of fidelity, on the part of brokers executing the orders of distant clients, have led to a progressive development of precautionary rules and regulations, but it appears to be necessary to add that the exchanges have paid a great deal of attention to the interests of their own members in this respect and comparatively little to the rights and interests of customers as such.

Last but not least, the speculative character of much of the future trading and the increase of risk which the system facilitates by permitting, if not encouraging, extensive commitments on the basis of comparatively narrow margins and resources, makes it necessary to safeguard members and others against attempting to stretch the structure of credit beyond the danger point. Margins must be provided without delay and obligations to deliver or receive and pay for, etc., promptly met, or else extreme penalties are prescribed.

The physical equipment and facilities of the cotton futures market.—The physical equipment of a cotton futures market is simple. There is a large room with a high ceiling in which the traders, assisted by a corps of messengers and clerks, assemble. The equipment of this room consists of: (1) The future trading ring; (2) telegraph and telephone connections; (3) blackboards with facilities for recording the prices on current trades; (4) market news tickers; (5) boards of exhibit upon which are posted statistical data, weather reports, crop conditions, etc.; and (6) a supply of chairs and benches. There are no samples of cotton nor any need for them in a cotton futures market, since all contracts are based upon provisions as to grade and staple contained in the rules and in the United States cotton futures act.

Auxiliary to the cotton futures market and located in the vicinity of the trading room, are the rooms of the administrative division of the cotton exchange, the offices of cotton futures brokers, and some place where clearing house or ringing-out operations for the settlement of future contracts can be attended to.

The future trading ring.—The future trading ring is located near one end of the cotton-exchange room, affording an easy view of the blackboard space, which is provided on adjacent walls well above the heads of the men in the ring or pit. It is about 30 to 35 feet in diameter and consists of a ring-shaped platform rising from the floor by a series of three to five steps to a height of about 2½ feet, and on the inside descending again by a tier of four or five steps to the floor. The central floor space of the ring, about 12 feet in diameter, is kept clear by a railing, behind which the traders stand upon the tiers of steps, facing each other across the open center space, so that each trader may be clearly seen and may see all the other traders gesticulating and shouting their bids and offers or acceptances across the ring. All future trades are supposed to be executed in the ring.

The telegraph and telephone connections.—Not far distant from the ring, spaces are provided for batteries of telegraph instruments and for sets of telephone booths. Through the telegraphic connections thus located near the ring the large telegraph companies receive and deliver telegrams from clients to brokers, ordering purchases or sales of future contracts. These connections also enable the brokers to make almost instantaneous report of the execution of clients' orders. There is also a telegraphic reporter's equipment through which continuous cotton market quotations are sent out to a considerable clientele by the Western Union Telegraph Co. The telephone booths on the exchange floor belong to certain brokers and

contain direct wires to the offices of those brokers, as well as connections with the public telephone system.

Blackboards and facilities for recording the prices on current trades.—As already stated, there is a system of blackboards high on the walls adjacent to the ring on which current cotton prices from all the leading cotton futures markets are recorded.

In the New Orleans market there is a reporter who stands in the open space at the center of the ring, inside the railing, and calls out the prices at which contracts are executed to the recording clerk who stands upon the scaffold at the blackboard and posts the time and price of each sale. In New York, where the number of traders and the volume of trading are larger, the prices of all trades are noted by a corps of reporters who stand about the ring. The moment a sale is made a reporter writes the time, the price, and the option upon a slip and this slip is handed up to a special telephone operator at the side of the ring who repeats the price through a telephone system to the recording clerk on the scaffold at the blackboard. The recording clerk at the blackboard wears a telephone operator's head set, the connection to which is equipped with an attachment that rolls along an overhead track, enabling the recording clerk to move freely from point to point before the blackboard without interrupting his connection with the telephone operator at the ring who reports the prices to be recorded. The prices thus reported from the ring direct to the blackboard are at the same instant telegraphed by a Western Union operator from the ring in New York to New Orleans and from the New Orleans ring to New York, and almost simultaneously recorded upon the blackboard of the distant market. The traders in each future market thus have before them a blackboard record of all the prices as made in both markets, as well as a similar record of the Liverpool market.

Market news tickers.—Market news tickers of the various service organizations, though not actually a part of the equipment of a cotton futures market, are installed upon the floor of the exchange as a convenience to the members.

Boards of statistical exhibit.—A certain portion of the exchange floor is devoted to upright boards, on both sides of which are posted in more or less systematic form statistical data of various kinds, weather reports, crop conditions, shipping rates, and other market news, collected by the statistical division of the cotton exchange.

Seating accommodation.—A portion of the floor affording a good view of the blackboards and the operations in the ring is provided with chairs and benches for the accommodation of spot and future traders and others interested in the market but not at the moment taking part in person in the activities of the future trading ring.

Hours of trading.—The cotton futures market in New York is open from 10 a. m. until 3 p. m., eastern time, and in order that the hours of trading in the two American markets may coincide the New Orleans market is opened at 9 a. m., central time, with special summer adjustments occasioned by daylight-saving regulations. The Liverpool market opens five hours earlier than the American markets, but the Liverpool session lasts for six hours, so that its operations overlap those of the American markets by one hour.

Trading before or after hours is forbidden by the rules of both the New York and New Orleans exchanges, but it appears that a small

amount of trading after the close frequently occurs, and is tolerated, the explanation being that such trading serves merely to complete the execution of orders received with instructions to execute at the closing market price and also that it enables brokers to correct errors and even up their trades. Trading after the close is sometimes termed execution of orders "on the curb."

The function of ring trading.—The trading in a cotton futures market consists chiefly in the execution of telegraphic and telephone orders to buy and sell future contracts. The trading ring performs the functions of a switchboard making connections between distant buyers and sellers. Persons or concerns wherever located who wish to buy or sell cotton future contracts wire their orders to their brokers and these messages ordinarily are delivered to the broker's representative at the exchange. It is across the future trading ring that the connection is struck between each of these orders to buy or to sell and an opposite order.

The process of trading for customers within the ring is one of fitting orders to buy against orders to sell, merely with a broader provision for obtaining a coincidence of orders to buy and to sell than can be secured within the office of a single broker. Many orders direct a purchase or sale at the market price. Such orders will always be filled, but the quality of the execution obtained depends upon the skill of the broker. Others are given with a limit, to be executed only when the market reaches a certain named figure. An order often specifies price conditions which it is difficult or impossible to satisfy in the market. It is the function of the trading ring, however, to secure execution of every order to buy or sell if the price set is reached in the prescribed period. The various brokers, however, are expected to serve the interests of their respective customers and ordinarily do not show how much latitude orders from their customers allow them or make an offer under a limit until there seems to be a prospect of execution.

In addition to affording the opportunity to make a connection between outside orders to buy and sell, the future trading ring permits members present who trade for their own accounts to accept at their discretion offers to buy or sell. In this way there is provided a means of execution of some outside orders which could not at the moment be met by opposite outside orders reaching the ring. The volume of such floor trade is considerable. Such traders usually both buy and sell in the same day, taking small profits or losses and seldom carrying trades open over night.

The technique of ring trading.—The method of executing cotton future trading orders is not absolutely uniform but substantially is as follows: A trading order addressed to a certain firm of futures brokers reaches the cotton-exchange station of one of the telegraph companies, and is immediately written upon a telegraph blank and handed to the floor representative of the broker addressed. The order may read: "Buy one October," or "sell one December," or "sell one October at 21.68," or "buy one October at 21.75 stop." When trading is active such orders are reaching the market continuously.

The simple order "buy (or sell) one January" means that the contract indicated is to be executed immediately at the most favorable price which can be obtained in the market. An order to buy or sell

at a specified price means that the trade is to be executed if execution is possible during the day at the price named, or at any better price, but the broker does not exercise discretion and wait for a better price.

An order which is terminated with the word "stop" is a "stop-loss" order. A stop loss selling order names a price below that which would be obtainable in the market at the moment, and a stop-loss buying order names a price above that which it would be necessary to pay in the market. Such orders become market orders if the fluctuation in the market carries the price to that named in the selling or buying order. The order is executed as soon after the named price is reached as is practicable, but not necessarily at that price. Stop-loss orders are given by traders who desire to limit the amount of loss they may suffer by an adverse fluctuation but at the same time desire to retain their future holdings, thus conditionally, if the movement of the market is in their favor.

When an order, other than a conditional order, is handed to a broker in the trading ring, he gesticulates violently to attract attention amid the noise and commotion of the market, and at a favorable moment shouts his bid or offer into the ring. The understanding is that any broker who is offering a given month has the floor as against any broker who would offer the same month at a higher price, and any broker who at a given moment is bidding for a certain month at a given price has the floor as against any broker who would bid a lower price. In periods of great activity it appears that this principle of floor priority is not closely observed.

The method of accepting an offer or a bid in the New Orleans market is to shout the word "Sold," the trader accepting an offer indicating by gesture whose offer he accepts. Each trader, or an assistant standing behind him, then makes out a contract slip in pencil stating names of purshaser and seller, the month and price and the number of contracts. When these contract slips have been filled out one of the traders at a favorable opportunity attracts the attention of the other broker and confirms the transaction by saying "I bought (or sold) one October from (or to) you at ——." If correct, the second trader answers "sign it," and each by this authority signs the name of the other to complete the contract slip. This record is more formally confirmed on the following day by the interchange of confirmation slips between the brokerage houses.

In New York the system of accepting offers or bids[16] and confirming transactions is fundamentally the same, but technically somewhat different. When a ring trader shouts his bid into the ring and a second trader wishes to accept it he shouts "Sold" just as is done in New Orleans. But when a trader in New York wishes to accept an offer in the ring he does not cry "Sold," as would the trader in New Orleans, but instead cries "I take it." The New York traders seem to feel that this difference in method of accepting offers tends to reduce misunderstanding and error.

In New York, again, no attempt is made to confirm any trades by repetition across the ring, and no trader signs the name of the opposite trader to any contract slips. All slips are written out and at the close of the day's trading are arranged upon improvised

[16] "Offer", i. e., the seller's offer of a given option at a given price; "bid," i. e., the buyer's bid for a given option at a given price.

tables on the exchange floor, and a representative of each trader signs the slips of all the other brokers with whom contracts have been executed in the trading ring during that day. In New York there is no further confirmation of these trades between brokerage houses on the following day, but all brokers carrying contracts report all trades each evening to the New York Cotton Exchange Clearing Association, and if any disagreement appears the clearing association requires the brokers concerned to correct it, and in addition fines those in error $5 for each error made in their reports. The purpose of these fines is to encourage greater care and accuracy.

Imperfections in the functioning of the future trading ring.—Simple as the functioning of the future trading ring may seem, in practice there is some friction in operation. As a result of the execution of a flood of orders through the traditional means of an intermingled shouting of bids and offers across the ring, it is reported that in moments of excited trading contracts will sometimes be executed side by side at prices inconsistent one with the other. In a rapidly advancing market, for example, it has been observed that a contract was executed at 21.85 cents per pound, and, in the confusion, a contract in the same month of delivery was immediately offered at less than 21.40 cents per pound.

The functions and technique of the cotton futures broker's office.—By far the greater part of the trading in the futures ring is done by brokers acting for others. The exact volume or proportion of contracts executed by members on their own behalf is not available. The great majority of the traders, however, are brokers and a large part of their trading consists in the execution of orders telephoned or telegraphed to the exchange.

The function of the futures broker can be properly understood only if it is borne in mind, as heretofore explained, that the futures ring is the point of contact through which all traders in futures must make their contract connections with each other. It is primarily through the futures broker that the orders of contracting parties are brought to a focus. The broker's office offers the intending trader an entry-way or means of reaching the ring and of trading there. In the New Orleans futures market practically all trades come through one or another of about 30 to 40 brokers. In the New York ring there are perhaps 75 brokers through whom a contract may be executed. It is through such a system of concentration that the orders for the purchase and sale of cotton futures in the United States are brought into such relation that they can be executed in but two relatively small trading rings and the price of every trade recorded.

With reference to the trading on a futures exchange by nonmembers and by members who similarly utilize the facilities of a broker's office, the broker is an agent of his customer who is legally the principal on all contracts made on his behalf. As agent for his customer the broker receives and executes orders, confirms them to brokers at the other end of trades and to the customers for whom they are made, protects the trades by margin deposits with brokers on the opposite side (if on the New Orleans Exchange) and exacts similar deposits from them, or (if on the New York Exchange) with the clearing house on net open trades, and accounts for profits or losses and incidental costs in the way of commissions, taxes, and other incidentals to the customer. The broker is accountable by law to his customer

under an implied contract of agency and also as a trustee of funds deposited to protect contracts. The customer may also to a limited extent utilize the rules and practices of the exchange in securing the fulfillment of obligations of the broker to him. The broker protects himself as regards the financial responsibility of his customers by requiring margin deposits from them, and he may also require margin deposits from the other brokers with whom he deals. He economizes the amount of money thus tied up in margins as much as possible by the practice of offsetting and settling trades prior to the maturity of the contracts. Disputes between brokers as to prices on contracts and as to most other matters are settled by an arbitration committee of the exchange or by other procedure of such a nature as to make recourse to the law seldom necessary as regards relations between brokers.

In order to assure the smooth performance of the functions involved in their relations, cotton-futures brokers have developed a certain more or less definite technique, differing somewhat as between New York and New Orleans and subject to more or less slight variation between the office of one broker and that of another.

The functions of the cotton-futures brokerage concern may be described in order as follows: The broker receives at the ring or at his office an order to buy or sell. This order is executed as already described in the discussion of the future-trading ring. As soon as executed the order slip in New York or the contract slip in New Orleans showing execution of the contract is ordinarily time stamped. The books containing these slips are then turned in to the broker's office, where a number of necessary records are made. First, the contracts executed are recorded in the order of execution in a blotter or daybook. They are next recorded in the customer's contract ledger. In New Orleans they are recorded also in the ledger showing the status of accounts with other brokers. But in New York the substitution of the clearing association for the opposite party on all trades obviates the necessity of each broker carrying accounts for open trades and margin deposits with other brokers.

When the customer of a broker desires to close out a contract he orders his broker to sell if he has previously bought or to buy if he has previously sold. Upon execution of such a trade the broker renders the customer an "Account of sales," which shows the quantity of futures bought and sold, with the date and price of purchase, and date and price of sale, the broker's commission and the Federal tax (subtracted from the gain or added to the loss) and the customer's net credit or net debit resulting from the completed trade.

The margin deposit required from customers is not uniform. It is entirely a matter of discretion with the broker and depends upon the credit policy of the particular broker and the credit standing of the customer; also upon the broker's previous experience as regards the particular customer's responses to margin calls. Some brokers keep a record in abstract of past margin calls for each customer, showing the amounts called for and the dates, promptness of response, and such "remarks" as may seem relevant.

A broker also keeps what is sometimes called a "margin slate" upon which is checked up every day the number of open contracts held by each customer whose account is in such shape that a possible fluctuation in the price during the coming day might make further margin calls necessary. On such a slate entries will usually be made to show the computed number of points of variation from the previous night's closing price that would necessitate a call for additional margin deposits, as well as memoranda of open trades for each customer and broker. By reference to the slate a broker can tell at a glance, as the price fluctuates during the day, whenever additional margins are required from any customer or broker. In New York, since all contracts are assumed by the Clearing Association and margins called and put up by that association, it is not necessary for a broker to keep a margin slate of broker's accounts.

There is also sometimes occasion for the futures broker to look after the delivery or receipt of actual cotton on future contracts. In such a case it may become the duty of the broker to direct the bureau of inspection of the cotton exchange to have the cotton inspected and sampled, and the samples examined and classed by the United States Board of Cotton Examiners. These processes of inspection and classing of cotton, however, are described in a different section of this report. The method of giving notice that cotton will be delivered on a future contract also is discussed in the section on "transferable notices."

The commissions to be charged for the execution and clearing and carrying of contracts are fixed in the rules of the exchanges, and are the same in New Orleans and New York, except that in the New York exchange there is a class of members, called "floor brokers," who merely execute trades in the trading ring for others and do not clear or carry contracts. The floor broker's fee for merely executing a 100-bale contract, either the purchase or the sale, is $1.25. The full commission of the regular broker for executing and carrying a contract for nonmembers is $12.50 for each purchase or sale of a 100-bale future contract.

The function and administration of margin deposits.—A person ordering the purchase or sale of a future usually protects his broker, as to its fulfillment or settlement, by a margin deposit with the latter. The precise arrangement between broker and customer is a matter of their mutual agreement, not controlled by law or by exchange regulation. The same is true as regards margin deposits between houses, except that the rules in that case prescribe a maximum that may be called. Furthermore, in the New York Cotton Exchange, as already stated, there has been established a clearing association to which all obligations on open contracts between brokers are transferred at the end of each business day, and this clearing association takes the responsibility of seeing that all net "long" or net "short" interests of the various brokers in their dealings with each other are margined in a uniform manner.

Margin deposits, it should be appreciated, amount to much more than a passive guaranty of ultimate fulfillment or settlement of future contracts. In reality the margin deposit is the instrument through which the relations of traders are kept continuously adjusted to the changing price of cotton. The seller of a future puts up a margin deposit to guarantee fulfillment or settlement at the price specified in the contract, even though the market for cotton in the meantime should rise. The buyer, on the other hand, puts up a margin deposit

to guarantee that he will accept the cotton at the contract price even though the market price should fall. But a cotton future contract does not establish the amount of the check that will be drawn by the broker to pay for the actual cotton when it is delivered upon the arrival of the designated future month. The price billed to the broker is affected by intervening offsets and settlements. The contract upon which the seller delivers will practically never be the same contract as that upon which the buyer accepts delivery. But the broker will be, or will have been, compensated or assessed for the difference between the price he pays and the price his customer pays by the various settlement balances intervening. The customer will of course pay or receive what he originally contracted to pay or receive. Meanwhile the progressive adjustment of the margin deposits secures the brokers against default by customers on unprofitable contracts. Such deposits are forfeited to the broker as may be necessary to cover any unfavorable difference between the price at which the customer's contract was executed and the current price. On the other hand, if the market moves in a direction to give the trader a profit (goes down after he has sold or up after he has bought) he may be permitted progressively to withdraw his margin deposits in proportion to his paper profits. Some brokers allow a customer under such conditions to take out the computed profits to any extent that will still leave the open trades properly margined on the basis of current future prices.

Section 5. Settlement of future contracts.

Introductory.—Every cotton-future contract made must be fulfilled by delivery and receipt of the cotton and payment therefor, unless terminated by a settlement made in accordance with the United States cotton futures act and also in accordance with the regulations of the cotton exchange in which the contract is made. The basis of all contract settlements is some form of offset, a purchase held open for a customer being settled against a sale similarly held open for another customer by the payment of the price difference between the brokers. This involves substitution of a new principal on the customer's contract, which, however, for reasons already stated, is a matter of no concern to the customer, or rather he is in general benefited by the system of substitution because of the guaranties that accompany it. If he wishes to take delivery or make delivery there is always some one on whom the responsibility for the opposite side of the contract can be definitely fixed.

Since hedging and speculation are the two main motives of future trading, contracts are usually terminated even as regards the customer by settlement, the delivery of cotton on a future being exceptional. For this reason facility of contract settlement is of very great importance in a futures market. For handling the great volume of future contracts continuously made and settled, the cotton-futures markets have developed or adopted methods, such as the "ringing out" and "clearing" systems, which serve this purpose very efficiently, but which may seem extremely elusive and bewildering as to the principle of their operation. In its elementary form, however, the settlement of a future contract in lieu of its fulfillment by delivery is easily understood, and systems of "ringing out" or otherwise clearing contracts involve no new principle.

If there were no arrangement for settlements prior to delivery, then if a customer had both bought and sold futures for delivery in a given month—a hedger, for example—his broker would have to carry both these counterbalancing contracts open, keeping up margin deposits on them meanwhile, until the arrival of the month of delivery, and then would have to go to the trouble of taking delivery from one side and redelivering on the other side, paying the full contract price of the cotton purchased and billing and receiving payment on redelivery, in order to clear himself of contracts for a customer who had long ceased to have any concern with them. To obviate the cost and awkwardness of such a practice, methods of settlement have been devised. These settlement systems operate only within the exchange, between brokers and others executing and clearing future trades.

The above illustration assumes the simplest condition, that is, when the bought and sold trades settled against each other by the broker are initial and closing trades of an identical customer. If the broker is willing to guarantee the contract to a customer with trades open, however, it obviously makes no difference to customers, if the bought-open trade of one is settled against the sold-open trade of another. To the broker it means a great saving in margins and a simplification of bookkeeping if he is allowed to settle all open trades, regardless of the position of individual customers, so far as he has not a net excess of sales or purchases for the particular delivery on his books. This is actually the practice, subject to a qualification for uncompleted rings where there is no complete clearing-house system. Further consideration of methods of settlement, therefore, need be directed only to the condition of the broker's accounts and not to those of his customers.

Direct settlement.—If in the course of trading, broker A buys from broker B a future deliverable in a certain month at a certain price, and if, later, upon selling a future in the same month, A finds that he has sold to B, then A and B will be able to close out these contracts by a payment direct from the loser to the gainer of the differences in price between the two transactions. If A has sold to B at a higher price than that at which he had purchased from B, then A will bill B for the difference; but if A has sold to B for less than the price at which he purchased, then B will bill A for the difference. In this way both of A's contracts, the purchase and the sale, are cleared; and the same is true of B's two contracts. This is called a "direct settlement." The direct settlement is possible only where a broker who has bought or sold a future contract for a given month has made a counter transaction in the same option with the same broker. Of course such a completion of round trades by resale to the same broker will not often occur where there are many brokers operating in an open market.[16]

According to the rules of the cotton exchanges, a broker who holds contracts for both purchase and sale for delivery in the same month is authorized to "offset" and settle these contracts with the other brokers and to substitute others as the parties responsible to his customers with trades remaining open, himself guaranteeing the

[16] When broker or ring trader A has purchased from broker B and sold to broker C the same option, at the same price, A may, with the consent of B and C, eliminate himself from the deal by virtually converting the two trades into one direct transaction between B and C. This is a "pass out" and operates as a settlement for A but not for B and C.

fulfillment of the contract. In the case of the New York Cotton Exchange (by-laws, sec. 36, rule 6), the broker is himself directly indicated as the new principal. These rules are the authorization for the practice of direct settlement as well as for the ring settlements next to be considered.

Ring settlements.—The principal method of settlement in New Orleans is by the "ringing out" of trades. What is called the "ring settlement" operates upon the same principle as the direct settlement, except that it takes three or more traders to make a "ring," and there is a settlement price established as a basis from which the parties to the ring may calculate and bill each other for the differences in price in the various contracts involved. In New Orleans, where this system of settlement is in use, there is a rule of the exchange establishing the closing-bid price of the previous day's trading as the basis for ring settlements.

The ring settlement may be applied wherever there is a group of three or more traders who have both bought and sold to one another in the same option, the counterbalancing contracts standing open. Such a group can always be formed into a complete circle of trades, which in effect cancel each other except for the difference in price, A having sold to B, B to C, and C to A. There may be any number in the circle, provided that each trader has sold to the next, that the last of the series has sold to the first, and that none of these contracts has been settled.

Since each of the parties to such a ring has balanced his purchase by a sale, nothing more is required to clear all these contracts than that the traders settle with each other for the price differences. Where the basis of settlement is the closing-bid price of the previous day's trading, as provided in the New Orleans rules, each member of a ring to whom money is due under the settlement bills those with whom he has traded and who under the settlement owe him the difference between the contract price and the settlement price. If A has sold to B at a price higher than the settlement price, A bills B for the difference; and if C has sold to A for less than the settlement price, A bills C for the difference. The sum of the amounts A receives from B and C equals the difference between the price at which A bought from C and sold to B, and therefore the sum of these amounts is equivalent to A's total profit on the round transaction. The losses equal the gains, of course, when the accounts of all the members of a ring are considered.

The only way of knowing that any group of brokers has made a series of trades which completes a ring is to compare the brokers' records of open contracts. In New Orleans the futures brokers have an arrangement with an official ringer, to whom each broker reports every day, specifying by delivery month the number of bought or sold contracts standing open with each of the other futures brokers, but omitting from these reports such pairs of contracts as may be cleared by direct settlement.

The official ringer compares and analyzes these reports of open contracts, with a view to eliminating all the contracts which possibly can be rung out. Taking the contracts of one delivery month at a time, the ringer begins with broker A and, if A has open contracts in the given delivery month representing purchases from any broker or brokers and also sales to some broker or brokers, the ringer traces A's sales to B, and B's sales to C, and C's sales to D, etc., until eventually, if there be a ring, he must find that some broker has sold to A, or to some other broker in the succession of sellers, and then a ring is complete. The official ringer prepares and delivers the next morning to each member of the ring an abbreviated and informal pencil memorandum naming the succession of brokers in the ring and the number of 100-bale contracts covered, and notifying each broker with whom he is to settle. Each broker then compares the settlement price (which is the closing bid price of the previous day's trading) with the prices of his bought and sold contracts which are to be settled, and before 12 o'clock noon makes out a bill or bills to the broker or brokers whose contracts are being "rung out," or awaits their bills, according to his position as gainer or loser and as the actual price differences may require. Bills on "rings" must be paid before 2 p. m., except on Saturdays, when they must be rendered by 10.30 and paid by 11.30 a. m. (Rule 48, sec. 2, New Orleans Cotton Exchange.)

The position of the official ringer is a highly confidential post, its information bringing to focus every night an exhibit of the open contracts of all the futures brokers in New Orleans. It appears, however, that the man in charge has long enjoyed the full confidence of the cotton-futures brokers of New Orleans; and since it is not necessary for the ringer to be informed of the contract prices, or to do more than merely to trace out the ring trades and furnish the members with an abbreviated memorandum of the same, his work can be performed without the necessity of engaging assistants or sharing the confidence placed in him with anybody. In the New York market the ring settlement system has been supplanted by the establishment of the complete clearing house.

Clearing association contract settlements.—The operation of the New York Cotton Exchange Clearing Association will be more easily understood if it is recalled that the obligations assumed and imposed by future contracts do not remain fixed upon specific and identical individuals. The original purchaser releases himself so completely by his later sale that trading in futures is commonly referred to as trading in contracts, although in fact delivery may be actually made on the original purchase just referred to, but not to the original buyer who has sold for the same delivery month. At the close of the day on which a trade is executed in the ring the broker will settle the contract by offset, if he has an opposite trade for the same delivery month. In other words, if it is possible, he will make a ring or direct settlement (at New Orleans) or settlement through the clearing house (at New York) provided only he has bought for one customer what he has sold for another. The clearing-house system of contract settlement carries facility in the transfer of obligation to a very high degree of completeness.

The clearing association system of New York has four points of distinction when compared with the "ringing out" system in use at New Orleans. It is the function of the clearing association, (1) to assume the liability or rights as against each broker on all contracts open at the end of each trading day (net of purchases and sales for the same delivery), (2) to see that each broker maintains the proper margin deposits, (3) to pay the Federal taxes on future trades (a matter of administrative convenience), (4) to receive and pay bal-

ances due on settled contracts (except for ex-clearing house settlements), and (5) to supervise the making of deliveries on contracts thus fulfilled.

The clearing association each day clears for each broker all contracts reported open at the end of the previous day that can be offset against each other: that is, all except the net "long" or the net "short" interest which the broker may hold for each delivery month. If a broker's daily report for a given day shows 15,000 bales December bought and 10,000 bales December sold, the clearing association clears the 100 counterbalancing contracts and leaves but the 5,000 bales "long" in December, the broker having thus to maintain margin deposits only on the 5,000. The New Orleans system eliminates the contracts which can be settled by the arrangement between brokers of a direct or ring settlement, but not all the trades other than the net long or net short contracts of a broker can be thus cleared.

The clearing association of New York receives price information regarding all open contracts, and collects or relinquishes such margin deposits as may be required by the fluctuations of the market. The amount of original margin which brokers are required to deposit with the clearing association for their net long or short interest is regulated by the board of directors of the clearing association. It has varied from $3 to $5 per bale. But where a broker's net "long" interest in a given month is counterbalanced by a net "short" interest in other months, such counterbalanced contracts being referred to as a "straddle" interest, the original margin required is but $1 per bale. These margins are uniform for all clearing members.

There is also what is called a "variation" margin. A variation in price of 100 points, or 1 cent per pound, amounts to $5 per bale. The regulations limit the possible variation of futures prices to 200 points per day, or $10 per bale. It appears, therefore, that the price fluctuation in one day might amount to twice the original margin of $5 per bale which the clearing association now requires. The clearing association is authorized to call for additional margin deposits at its discretion, to protect the association against exhaustion of the broker's original margin deposits, and such deposits are called variation margins. The officers of the New York Cotton Exchange Clearing Association assert that they keep their information as to the standing of every broker in such shape that they can "call the street" in from 10 to 15 minutes. It is a rule of the clearing association that variation margins called must be deposited within one hour.

If in spite of these precautions a broker should be unable to meet margin calls, section 20 of the by-laws insures the association against loss through such default by the provision of a guaranty fund. This fund consists of $15,000 from each member; and should the fund be drawn down it is to be restored by assessment levied upon the members. Up to the time of the present investigation no occasion has arisen for drawing upon this guaranty fund.

In discussing the position of the official ringer of the New Orleans Exchange, it was pointed out that his is a highly confidential post. The positions of secretary-treasurer and of assistant treasurer of the New York Cotton Exchange Clearing Association, however, carry far greater responsibility. Into the possession of these officers there comes daily from each member of the New York Cotton Exchange, belonging to the clearing association, a complete report of his position in futures. The responsibility for strict regard for the confidence thus imposed rests jointly with these two officers. Though control of the policies of the clearing association and the decisions as to changes in the amount of original margin deposits required are entirely affairs of the board of directors of the clearing association, neither the president nor the directors have any authority to require or receive from the secretary-treasurer or the assistant treasurer any information concerning the market standing of any member clearing through the association.

It is to be noted that the provision of the by-laws of the clearing association guaranteeing each broker against loss through default on contracts by any other broker is not a guaranty to the customer against loss through the failure of his own broker. The system of margin deposits between brokers doubtless helps the outside customer through securing the financial stability of the membership generally, but the customer is not protected against an unwise selection of a broker as his agent in making trades.

Settlement by the passing of delivery notices.—The delivery notice is a form issued by a broker on behalf of a customer who has sold a future and who wishes to make delivery of cotton thereon. It has been pointed out that it is very easy to transfer obligations on futures by offset, so that delivery most probably will be made to a different buyer from the one upon whose order the contract was originally executed. In order to make more fully effective the transferability of responsibilities under future contracts the notice of delivery is also transferable.

Under the United States cotton futures act (and the rules of the cotton exchanges) notice of delivery upon a contract must be given on the fifth business day prior to the beginning of the designated month of delivery. It seems to be the practice of brokers prior to the first notice day to secure information from their selling clients as to whether they intend to make delivery on their sold contracts for the next month, and to secure information from their buying clients as to whether they wish to take delivery. The seller, if he wishes to deliver, has the option of issuing the notice of delivery at any time between the first notice day and the final notice day, which is five full working days prior to the end of the month of delivery.

The delivery notice is handled somewhat differently as between New York and New Orleans, due to the difference in methods of clearing contracts in the two markets. In New Orleans a broker must issue the notice to some other broker with whom he has open sold contracts. If no customer of the second broker desires to accept delivery of the cotton, such broker within 15 minutes after receipt of the notice must indorse this notice and "pass" it to a third broker on an open sold or "short" contract which the second broker holds with the third broker. In passing from broker to broker the notice eventually will reach a broker who has a customer holding a contract of purchase, or a "long" contract, who desires to take delivery of the cotton. If, in its circulation during the day, the notice finds no broker with such a willing purchaser, the broker who holds the notice at the close of the day's trading is construed to have "stopped" the

notice and must take delivery of the cotton on behalf of some customer who is "long" with him. But where no customer of his desires the cotton the broker may, on the following morning, issue a new notice covering the cotton which he is to receive on the notice "stopped" by him the previous evening. This new notice will be handled in a manner similar to that already traced.

The passing of a delivery notice forms a basis of contract settlement similar to that involved in the ring settlement, or settlement by the process of clearing. If a broker receives a notice and holds no open contracts of sale in the current month of delivery, and if his customers do not want the cotton, he must sell, on behalf of one of his customers to whom he has tendered the notice, in order to have an open "short" contract upon which, within the given time limit, he can pass the notice he has received to another broker.

In New York, where the clearing association each day assumes all contracts open at the end of the previous day, a broker must issue all his delivery notices to the clearing association, and the association in turn will pass these notices to brokers with whom it holds contracts of sale. The notices may then be transferred from broker to broker upon the basis of the current day's trades in a manner similar to that in operation at New Orleans. Although a broker holds no open contract of sale with the clearing association for the current month of delivery, he may, nevertheless, have customers who have sold through him and who intend to deliver. The contracts executed by such a broker on behalf of such customers may have been settled through the clearing association and canceled with the broker by being offset with contracts executed on behalf of other customers.

Special provision is made in the rules of the New York Cotton Exchange Clearing Association (rule No. 10) authorizing a broker so situated virtually to restore the canceled contract, specifying by date and price the particular contract, and issue thereon a notice to the clearing association. The virtual restoration of such a contract of sale is balanced by a virtual restoration of an equivalent contract of purchase by the broker from the clearing association. The association may pass such a notice to any other broker holding contracts of purchase with the association for that delivery month, or may indorse the notice and pass it back to the broker issuing the notice; in which case he must receive it on behalf of one of his customers holding an open contract of purchase. If this customer does not wish to receive the cotton, he must order the sale of a future and the passing of the notice to the new buyer, all within the 15 minutes' time limit already mentioned.

Delivery of cotton on contracts.—Where contracts are not settled by offset or by the passing of a delivery notice they must be settled by delivery of cotton and payment therefor, except in the case of default discussed in section 2 above.

When a delivery notice has been issued, the party receiving such notice and desiring delivery of the cotton "stops" the notice, that is to say, he does not "pass" it to any other broker. He notifies the broker issuing the notice that the notice has been "stopped" and he will accept delivery in accordance therewith. On the fifth succeeding day the issuer of the notice delivers to the receiver warehouse receipts representing the cotton, together with United States Government cotton class certificates specifying the quality of the cotton.

The deliverer also bills the receiver in accordance with conditions stated in the notice, and payment is made in the manner provided in the rules.

The delivery notice in its statement of the conditions of settlement does not name the price stipulated in the original contract. Instead it names a settlement price which is the closing bid price of the previous day's trading, but the cotton is billed at a price varying by grade in accordance with the prevailing commercial differences, as reported by the Department of Agriculture on the day prior to the issue of the notice.

Upon examination of all the processes involved, however, it will be found that the total amounts paid and received for the cotton delivered in settlement of contracts by delivery equal the amounts named in the customers' original contracts upon which delivery is taken. In the process of offsetting and substitution, it is true, it almost invariably happens that the contract upon which a seller delivers and receives payment for cotton is, on the buyer's side, a different contract at a different price from the one which was originally executed for the seller. The seller's broker receives the original contract price of the cotton, partly in the form of the final price at which the cotton is billed on delivery, and partly in differences which have been received or paid in settlement on contracts offset. The buyer's broker likewise pays the equivalent of his customer's original contract price in the form of the final settlement price of the cotton, plus or minus the differences which he has paid or received in connection with previous settlements. The customer making or taking delivery of course pays or receives the specified original contract price. But if his trades went against him he has paid his losses largely prior to the date of delivery, in the form of margins put up and forfeited.

Section 6. Certification of cotton for future delivery.

Purpose of certification.—Before cotton may be tendered for delivery on a future contract on the New Orleans Cotton Exchange and on the New York Cotton Exchange, it must be in a licensed warehouse at New Orleans or New York, as the case may be, weighed by the exchange and classed or graded and certificates of class issued by the United States Government.

The chief purpose of the classing of the cotton is to ascertain the grade, the certificate being merely a document stating that the cotton described in the certificate is of such and such grades and tenderable upon a future contract or untenderable, as the case may be.[17] Since the basis grade for contracts for future delivery is middling cotton and there are a number of other grades of cotton deliverable on future contracts, final settlement of a contract where cotton other than middling is tendered can not be made except by applying the prevailing commercial differences between the grade or grades tendered and the basis grade. If the cotton tendered is of a higher grade than middling the buyer must pay the difference between the price of middling and the price of the grade or grades delivered. If the grade of the cotton delivered is below middling the seller must pay to the buyer the difference between the middling price and the price of the grade or grades delivered.

[17] Two different forms of certificates are used, one for tenderable cotton and the other for untenderable cotton.

Classifying cotton.—For the purpose of carrying out the provisions of the cotton futures act the Bureau of Agricultural Economics, United States Department of Agriculture, maintains branch offices at New York and New Orleans, the classifying of cotton being by a board of cotton examiners located at each city.

The owner of cotton intending to tender it for delivery on a future contract requests the board of cotton examiners to class his cotton. A form for making such requests is provided by the Department of Agriculture. This form when filled out gives, among other things, the number of bales of cotton, whether compressed or uncompressed, the location, weight and tag numbers, and is signed by the owner or person having control of the cotton.

Upon receipt of the request the chief inspector of the exchange, in the case of New Orleans, for example, is instructed to sample the cotton. The sample obtained by the inspector is divided into two parts, one of which is sent to the board of cotton examiners. The remaining portion is retained in case a "review" of classification should be requested. The board examines the sample and if the grade is such that the cotton is tenderable a certificate, green in color, is issued which gives the location, lot number, and marks, and the grade and length of staple of each bale, and states that the cotton described is tenderable on future contract. If the cotton is found to be untenderable a pink certificate is issued which states that the cotton described in the certificate is untenderable and gives the location, lot number and marks and also the grade and length of staple of each bale. The certificates both for tenderable and untenderable cotton go to the one requesting the classification.[18]

The services of the board of cotton examiners are sometimes used for settling disputes as to grades of cotton. Samples of the cotton are drawn and forwarded to the board with the request for classification. The Department of Agriculture provides a form for making the request, which states that "it is fully understood that your opinion [19] will apply only to the samples submitted and therefore may not be the true classification of the cotton from which they were drawn. It is also fully understood that you will not issue formal cotton class certificates based upon these samples, but that in case any of such cotton is actually tendered for delivery on a future contract made subject to section 5 of said act as amended it must be regularly inspected, sampled, and classed, and formal cotton class certificates must be obtained for the purpose as set forth in the regulations of the Secretary of Agriculture."

The board classes the samples submitted and reports the grade and staple length of each sample. While the cotton futures act does not contemplate the use of the board of cotton examiners for settling disputes, it is frequently used for this purpose.

[18] The board issues a report each day showing, among other things, the cotton classified that day and the quantity classified to date.

[19] Referring to the board of cotton examiners.

Section 7. Volume of future trading and of deliveries.

The following statement shows for specified years the volume of trading in cotton futures on cotton exchanges in the United States:

Exchanges	1918–19	1919–20	1920–21	1921–22
	Bales	*Bales*	*Bales*	*Bales*
New York Cotton Exchange	73, 159, 800	73, 333, 300	67, 758, 600	78, 361, 700
New Orleans Cotton Exchange	34, 100, 000	49, 148, 700	34, 509, 500	40, 701, 700
American Cotton and Grain Exchange (New York City)		490, 910	2, 165, 850	5, 572, 410
Total	107, 259, 800	122, 972, 910	104, 433, 950	124, 635, 810
Total United States crop [1]	11, 906, 480	11, 325, 532	13, 270, 970	7, 977, 778

[1] Running bales, counting round as half bales, as reported by the Bureau of the Census, Cotton Production in the United States—Crop of 1921, p. 2.

The total volume of future trading on the three exchanges ranged (in the four-year period 1918–1922) from 104,433,950 bales in 1920–21 to 124,635,810 bales in 1921–22. The statement clearly shows that the New York market is the one most used for trading in futures.

The large volume of future trading as compared with the quantity of cotton actually grown is due to a number of factors. It is the practice, generally, for most cotton dealers to hedge their purchases of spot cotton. It is possible that the same bale may be hedged many times as the bale passes from dealer to dealer on its way to the spinner. In addition traders frequently transfer their hedges from one month to another and also from one market to another, and thus add greatly to the volume of future trading. Speculative trades also are included in the volume of futures shown in the preceding statement and form a large proportion thereof, but it is impossible to determine the proportion that such trades bear to the total.

The following statement shows the volume of deliveries on future contracts on the New Orleans Cotton Exchange and on the two cotton exchanges at New York:

Exchanges	1919–20	1920–21	1921–22
	Bales	*Bales*	*Bales*
New York Cotton Exchange	84, 000	265, 900	546, 800
New Orleans Cotton Exchange	36, 100	112, 100	101, 400
American Cotton and Grain Exchange	350	1, 300	590
Total	120, 450	379, 300	648, 790

As shown by the statement, the quantity of cotton delivered on future contracts at New York and New Orleans ranged (in the three-year period 1919–1922) from 120,450 bales in 1919–20 to 648,790 bales in 1921–22. The volume of deliveries at New York greatly exceeded those at New Orleans. There is no practicable way of determining what proportion of these deliveries was sold out through the futures, the warehouse receipt being redelivered on future contracts of the same or a succeeding delivery month, and what proportion was finally absorbed by the cotton trade and the mills.

Section 8. The future contract as a hedge.

Nature of the hedge.—Both the merchandiser of spot cotton and to some extent the manufacturer of cotton goods use the futures exchange as a means of hedging or avoiding the risk involved in subsequent changes in the market price of cotton, the merchant, mainly on the short side (i. e., by sale of a future) to protect his spot purchases against a decline in the market before their sale, though at times on the long side (i. e., by purchase of a future) to protect his sales for forward delivery against a rise in the price of cotton before its purchase; the manufacturer, largely on the long side, as a hedge against a rise in the price of spot cotton when he has sold finished goods ahead and is not able or not disposed to cover immediately by the purchase of the quality of cotton required, but at times on the short side as a hedge against a decline in spot cotton when the contract for the forward delivery of goods subsequently to be manufactured can not be made at the time of the purchase of the spot cotton. But cotton manufacturers generally do not buy or sell futures themselves to a great extent, using instead the buyer's call contract,[20] in which case the merchant in effect hedges on behalf of the spinner to whom he has sold cotton.

Hedging assumes the existence of a nearly parallel movement in spot and future prices. If this parallel movement prevails, the merchant or manufacturer who has hedged the purchase of spot cotton by the sale of a future, if cotton declines, will have a loss arising from the sale of cotton or its equivalent in goods on a lower cotton market, which will be offset by a gain arising from the purchase of a future at a correspondingly lower price when he closes out. On the other hand, if cotton advances he will have a gain arising from the sale of cotton or goods on a higher cotton market, which will be offset by a loss from the purchase of a future at a correspondingly higher price when he closes out his future. In a similar manner protection is secured by the hedging of a contract for the forward delivery of cotton or goods by the purchase of a future. The hedge therefore tends to eliminate both losses and gains that are due to changes in the general level of spot-cotton prices, or are speculative in character. Merchandising and manufacturing gains and losses should remain substantially untouched by the hedge.

That the future contract may be closed out at any time by the execution of a contra contract greatly facilitates the making and the use of the hedge. Indeed, while the future contract always contemplates delivery and the hedge seller has the commodity in his possession and would seem to be able to deliver easily, its actual delivery on the future contract involves the sacrifice by the merchant of the advantage of any special qualities in the particular lot of cotton or of any special demand for it, so that in general the spot merchant will deliver hedged cotton on his contracts only as a last resource.

[20] An "on-call" transaction is one wherein the seller (usually the merchant) agrees to deliver a certain quantity of cotton and the buyer (usually the manufacturer) to receive it within a certain period, option as to date of call usually with the buyer, price to be fixed at so many points on or off some specified option (October, e. g.). Such a contract protects the buyer against a loss arising from a change in the basis and allows him to set the price when he thinks the market low. Under the buyer's call, if the seller of the spot cotton does not wish to speculate for a profit through a change of basis, he will buy the spot and sell the future, holding the hedge or future sale until the buyer says, "Fix the price," when he buys in the future and bills the buyer of the spot according to the terms of the purchase. If, however, he waits until the buyer calls before he purchases the spot cotton, the basis may have widened, in which case, if the basis is on, he incurs a loss, or if off, he makes a gain; or, the basis may have narrowed, in which case the reverse is true. Under the seller's call the merchant is given the "call"—i. e., the right to choose the time when the price shall be fixed.

Extent of use of the hedge.—The cotton futures markets are used for hedging purposes as a regular practice by the larger merchants and dealers and to a considerable extent by manufacturing consumers. Growers and the factors who represent them use the hedge very little.

Except for the operations of the merchants and spinners who are inclined to take speculative risks rather than use the futures market, cotton is hedged from the time when it reaches a concentration point, where it can be handled in 100-bale units, until represented in sales of manufactured goods for immediate or forward delivery. Conservative merchants of spot cotton and many manufacturers of cotton goods use the futures market as a hedging facility, except where safeguarded by a contra purchase or sale for forward delivery. For a merchant or manufacturer to carry cotton or goods unhedged or unsold under present marketing conditions is regarded by the trade as speculative, although it will not be denied that this is often done. Many mills, of course, purchase spot cotton, or contract to accept forward delivery of spot cotton simultaneously with their contracting to deliver finished goods in the future, thus obviating any need of using the futures market as a hedge or incurring risk of changing cotton prices.

A single use of the hedge by the manufacturer is illustrated in the buying hedge as follows: During October, A, a cloth jobber, comes to B, a manufacturer, with an order for goods to be delivered in the spring and to be sold to the retail trade for distribution during the summer. The manufacturer will not need the cotton to make up this order until January. By going into the futures market he can buy cotton for January delivery and thereby determine more or less closely the cost of the raw material required for this order. The probability is that he will not take delivery on a future contract to secure the actual cotton required, but he operates on the theory that factors in the cost of the cotton to be spun will correlate more or less closely with the fluctuations in his January contract.

That the grower does not hedge his crop is sometimes cited as an example of taking an unnecessary risk. The grower is, of course, taking a risk when he holds his crop without a hedge either by the sale of a future or by a contract for the sale of the spot. Most growers sell promptly. In many instances the small planter is in debt to a merchant or a bank and not in a position to hold his cotton under hedge or otherwise for a higher price. The grower's failure to use the futures market, even supposing he would like to avoid this risk, is easily explained. The individual grower's crop is usually less than 100 bales, the minimum quantity which can be covered by a future contract on either of the larger exchanges, and commonly less than 10 bales, the minimum quantity which can be covered by a contract on the odd-lot futures exchanges.

The cash margin required of the holder of an open future contract, and the increasing margin required of the seller of a contract in case of a rise in the future price, makes the matter a difficult one for the small grower to manage. Furthermore, the grower who has a large crop can ordinarily sell his cotton spot almost as promptly as he can have a future sold for him against the cotton and in so doing he avoids the commission expense of selling and buying the futures contract, the interest charges on money put up as margin, and the

cost of carrying the spot cotton. Only under the conditions of an obstructed spot market would the hedging market serve the grower. Finally, the grower, particularly the small one, has little knowledge of the futures markets, or how they may be used as a hedging facility.

The growers' cooperative selling associations, so far as they have been in actual operation, have not, with one exception, hedged their accumulations of cotton from members. The Oklahoma Cotton Growers' Association, which handled about 95,000 bales of the Oklahoma 1921 crop, reports that its policy is to distribute sales over a nine-months' period, offering some cotton every business day (with a few exceptions), and to secure, if possible, better than average market price for the period.

Its theory is that the average of sales carefully distributed over a period of nine active months will bring its members a better income, year in and year out, than sales made by the planters individually, largely during the ginning period. Upon a rising market, should they hedge their stocks by the sale of futures, they could not secure the average price of the crop year for their cotton because any rise in the price of spot cotton would be offset, ordinarily, by a corresponding rise in the price of the future which must be bought in. On the other hand, should prices decline continuously from the ginning period on, to hedge or to sell spot for forward delivery would probably result in more than the season's average price. If the assumption that through a series of years prices will move more often and farther upward than downward following the ginning season is correct, the nonhedging policy would appear to be the more advantageous, though looked at from the point of view of the single year such a policy may involve considerable risk.

Hedging financed cotton.—That bankers will make loans on cotton collateral more freely and at smaller margins when the specific cotton is hedged than they would if it were being carried subject to all the risks of market fluctuations is generally maintained. As a rule, bankers who engage in the cotton-loan business are strong advocates broadly of futures markets and not merely of their use as a hedging facility. They feel that the operation of the futures markets renders their loans more liquid than they could possibly be otherwise. Collateral can be sold or "hedged" promptly by way of the futures and a possible loss thus headed off. The practically continuous quotations during banking hours also keep the banker apprised of the value of his security on cotton loans. Finally, the credit of borrowers is made more secure by the hedging practice through the protection afforded the hedger. It is a common opinion among the New Orleans bankers that hedging is desirable, and it was proposed not long ago to make it a rule of the clearing house that each borrower should file a duplicate copy of the hedging order given to his broker at the time of requesting a loan, but this rule was not adopted. At present the bank's credit man does not insist that hedges or forward sales be placed against every cotton warehouse receipt accepted as security for a loan. The exact practice on this point has been difficult to determine precisely.

One New Orleans bank, for example, stated in 1922 that it asks specifically of borrowers on cotton whether the receipts are hedged, unless it is apparent from the documents that the cotton is being applied on a forward sale. It stated that it requires margins of $15 a bale (3 cents a pound), but that it would require much wider margins were there no futures market. It does not ascertain whether the cotton is of deliverable grade. Quite aside from any question as to hedging and the utility of the futures market, however, this bank stated that it loans only to reputable firms and that it considers the firm's financial statement of primary importance in making the loan. It appears that the form of warehouse receipt employed does not always provide the data required to determine the value of the specific bales which are pledged. The New Orleans Cotton Exchange, however, has recently adopted a one-bale receipt which is designed to show the weight, grade, and staple of each bale of cotton.

Another banker stated that his bank makes a special effort to determine whether a borrower's cotton is hedged. Two of the directors of this bank are actively engaged in the futures commission business and are asked to pass upon cotton loans during the active season.

It is said that these directors can tell accurately whether or not a dealer borrowing against accumulated stocks of cotton has at the same time a short interest in the futures market. It is a customary practice for a borrower to collect his difference on a broker's books ("profits" on hedges) and transfer the funds to the bank, which has a contra interest in the course of prices; and, vice versa, to transfer needed additional margins from bank to broker, even before "variation" margins are called.

Another bank stated that it relies upon (1) the ability of the credit man to watch future prices, and (2) the 200-point limit per day set upon fluctuations in future prices by regulation of the exchanges. This bank varies the margin required in accordance with changes in the level of cotton prices. It requires $15 a bale margin with cotton at about 20 cents, when a fluctuation of 200 points would amount to $10 or two-thirds of the customer's margin.

If the market should decline 200 points the bank would, of course, call for margins. Failing to receive the funds on call, it would, to protect itself, sell contracts in the futures market on the morning of the next business day to the extent of the value of the cotton collateral. A bank pursuing such a policy is not particularly concerned as to whether the individual borrower has or has not hedged his cotton.

The president of another bank stated that his bank inquires specifically as to whether the cotton hypothecated is hedged. On loans where the cotton is known to be hedged and within the tenderable grades, it requires a margin of $10 a bale (the price being about 20 cents). It would require fully $20 a bale were the cotton not hedged, as it does in the case of staple or low-grade cotton where it is difficult to make the hedge effective. He emphasized the fact that, in the last analysis, the bank loans on the net worth of the borrower.

The credit official of a fifth bank stated that if the grade and staple show that the cotton is tenderable in the futures market and not a specialty or staple cotton, and if the bank knows that it is hedged, it will lend perhaps 90 per cent of the market value on the warehouse receipts. In the case of specialties and staple cotton it loans a much lower percentage because of the difficulty of determining its commercial value and because it can not be protected in the hedging market. His bank

would not cease to lend on cotton, he said, if the futures market were eliminated, but it would lend only to the larger and richer concerns.

Finally, a sixth bank stated that in lending to spot cotton houses of established reputation it does not make a point of inquiring as to whether the cotton represented by the receipts pledged has been hedged in the futures market. It assumes that the borrowers do hedge their cotton and that they "know how to run their own business." In loaning to a new concern, however, it not only inquires as to whether the cotton is hedged but insists that the hedges be not taken off except on its order. Were it not for the presence of the hedging market, this bank stated, it would have to require a margin of 25 to 40 per cent as against 5 to 10 per cent. This bank not long since made a loan against warehouse receipts valued at $100,000. The concern to which the loan was made failed. The bank immediately sold futures against this cotton, putting up its own margin with the cotton futures broker. It appears that this practice is resorted to by bankers at times when they have reason to doubt the solvency of a cotton concern to which they have advanced credit.

In summary, it can not be said that bankers specializing in cotton loans invariably insist that the specific cotton hypothecated be hedged. Oftentimes they have not positive information as to whether this is true. Most of those interviewed take the position, however, that the hedging facility afforded by the futures market gives to cotton paper a liquid character which it could not otherwise have, and that they can lend up to a higher percentage of the value of the security because the futures market provides them with continuous information as to the value of the security. A firm's worth is of primary importance in borrowing on cotton as in borrowing against any other property. It is probable that the majority of banks making loans on cotton would lend on the basis of large working capital and conservative management regardless of the fact that a concern carried cotton unhedged.

Hedging and the "basis."—As stated by a member of one of the exchanges:

> It is a first principle of the orderly conduct of the cotton business, in so far as futures are concerned, that the price of futures in the hedge market should be properly correlated with the market value of cotton in the original (or producing) markets and in the consuming markets.

This relationship of prices—the difference between the spots and the futures—is referred to by the trade as the "basis," and is of primary interest to cotton merchants whether selling to domestic mills or for foreign account and to all manufacturers who hedge. Assuming that hedging is practiced, the basis affecting individual hedged transactions is more important than the general course of either the spot or the futures market, since the basis shows, so far as can be shown, how efficiently the hedge is working.

This may be illustrated as follows: A. B. & Co. bought (let us say) 100 bales of middling seven-eighths-inch cotton at 34.06 cents per pound in producing territory on August 1, 1919, immediately selling a future for October delivery, New York, at 34.95. The company thus paid "89 points off New York," which would cover the cost of moving the cotton to New York and making delivery on contract (i. e., from some part of the Cotton Belt). Its business consisted, however, of accumulating lots of cotton suitable for mill consumption. Accordingly, after carrying the cotton a few days the company sold it (100 bales) to a New England mill at 10 points "on" New York October, price to be fixed on or before September 20. The mill "called" for the cotton September 20 and A. B. & Co. bought New York October at 29.78, making the price of the spot cotton 29.88. Thus it closed out the hedge at a profit of 5.17 cents and sold the spot cotton at a loss of 4.18. The gross profit on the round transaction was, therefore, 0.99 cents per pound, or $495, out of which must come carrying charges on the spot cotton, commission charges, etc. If at the time of the sale of hedged cotton by a merchant or of goods manufactured from hedged cotton by a manufacturer and of the purchase of the future used as a hedge, the discount of spot as compared with the future is less than it was at the time the cotton was hedged, or the premium is greater, there is a gross profit to the merchant or manufacturer to the amount of the difference; if the discount is greater or premium less, there is loss equal to the amount of the difference, additional to expenses incident to the handling of both spot and future business.

If the merchandising company had found it impossible to sell the cotton at a profit in the spot market it might have moved it to New York and had it certificated for delivery in October. The original premium of 89 points, future over spot, would probably have allowed it to dispose of the cotton in this way at an inappreciable loss or even at a small profit. If at the time when it is desired to dispose of hedged cotton in the spot market the future in which the hedge is placed is at a premium over the spot, it is costly to buy in the hedge (unless it was sold at an even greater premium) and it may be better to await the delivery month and deliver the cotton on the futures instead of selling it spot. If the future is at a discount under spot the effect is the opposite; or, strictly speaking, if the discount is greater than when the hedge was placed, it pays better by the amount of this additional discount to sell the spot and buy in the future. To deliver on the future sold at a discount would involve a loss equal to the discount. This statement, however, does not take into account the commission charge for buying in the hedge on the one hand, or carrying costs and delivery charges, including transportation of the cotton to the exchange, on the other.

In the foregoing illustration it is assumed that A. B. & Co. was able to buy the cotton at a basis enabling it to sell the hedge contract at a considerable premium. As future and spot prices come practically together during the delivery month, some believe that the futures markets are not functioning properly unless the more distant delivery months within the same crop year show premiums over present spot prices which will cover the costs of carrying the cotton during the intervening period—i. e., will provide the "carrying charges." However, such a condition has not prevailed with any regularity during the past few years. For extensive periods the more distant delivery months have run at a discount under the near months and the near month (or "cover" month) has very frequently been at a discount under the spot price of middling seven-eighths-inch cotton. Cotton merchants have been paying more for spot cotton of deliverable grade in the belt than the price at which they sold hedge contracts in the futures market. This condition frequently rendered

the hedge of uncertain value as "price insurance" and dealers were protected only to the extent of being reasonably secure against large losses.

If, to continue the illustration, A. B. & Co. had bought 100 bales on August 4, 1919, it might have paid 32.73. This price was, say, 43 points "on" New York October. It would have sold the hedge contract in New York at 32.30. Now had it closed out the hedge sale at 29.78 on September 20 as in the former transaction, and sold the spot cotton at 29.88 it would have made a profit of 2.52 cents on the futures and incurred a loss of 2.85 cents on the spot sale, or a net loss of 33 points, exclusive of commission, tax, and other operating costs.

This condition is complained of by certain merchants operating in the South, and it is pointed to as "uncommercial and dangerous" by at least one competent observer in the New York market, viz:

> Now, we have had during the past few years a state of things in the cotton business which I have myself always regarded as uncommercial and dangerous—a state of things in which the so-called basis has been out of proper relation with the price of the hedge contracts in the futures markets. To be specific, if a cotton merchant buys 100 bales of middling cotton at some point in the South, deliberately paying for that cotton 2, 3, and 4 cents a pound more than the price at which he can sell his hedge contract, he is engaged in what is fundamentally an uncommercial and hazardous operation; but the practice of paying a basis for actual cotton much in excess of the going price of the future contract has been exceedingly prevalent in the cotton trade since 1916. It reached its climax in the end of 1919 and early 1920, when even-running middling cotton—upland cotton—was carried by cotton merchants, was traded in—bought and sold—by cotton merchants at 4 and 5 cents a pound premium over the going price of the hedge contract. In other words, if the going price of the hedge contract was 30 cents, cotton merchants all over the South were buying middling cotton at 35 cents, and proceeding to hedge it with future contracts sold at 30 cents a pound. For grades superior to middling and for cottons having staple, these premiums—or this basis—assumed perfectly unbelievable proportions. We had people buying $1\frac{3}{16}$ inch cotton at 30 cents a pound premium over the price of a hedge contract which they were selling against it. We had people buying American-Egyptian cotton at 60 and 70 cents a pound premium over the hedge contract which they were selling against it. Now, all that was exceedingly uncommercial and thoroughly dangerous. The danger did not develop, of course, until the process of price deflation set in, when the basis began to fade away. Then it developed upon a most alarming scale, and great numbers of cotton merchants were nearly or quite ruined by the shrinkage in the basis of the stocks of cotton which they were carrying. They had paid those enormous premiums for cotton, as compared with the hedge, and the hedge afforded them no protection against decline in the basis.

It appears that merchants who are able to sell "on call" several months in advance of delivery on a favorable basis may make large profits during periods when the spot cotton is selling at considerable premiums over the futures. For example, if in April, 1920, A. B. & Co. was able to sell 100 bales "on call" for October delivery at 600 points "on" New York Octobers and, being called to set the price in September, could buy the cotton at 50 points "on" October (future and spot coming close to a parity during the delivery month) it was in position to make a gross profit of about $5\frac{1}{2}$ cents a pound. In trading of this sort the merchant places no hedge (since he buys the cotton when the call is made) and needs only to watch the basis. The mill takes no risk of a change in basis, the merchant assuming this. The merchant is relying on the probability that the basis will narrow rather than widen before delivery has to be made. Handled in this way, the transaction is not especially hazardous for the merchant so long as spot and future prices come nearly together during the delivery month.

There is little likelihood that the merchant will lose provided he makes no mistake as to relative supplies of the qualities of cotton in the crop and provided he can fix his basis several months in advance of the delivery month on which the sale is based. The merchant may defer his purchase of spot cotton to fill contracts until they are called in order to profit from a narrowing basis. With spots at a premium over futures, the market is not favorable for the hedging of spot purchases. On the contrary, it is a favorable market for the hedging of spot sales (a so-called spinners' hedging market) and often the mill will buy the futures instead of using the "on call" contract, itself securing the profit from the narrowing of the basis. The purchase "on call," however, saves it from any risk of loss due to further widening of the basis and insures its getting the kind of cotton it wants.

As suggested above, the sale of spots at premium over the future, such as has prevailed much of the time since the war, creates a market favorable to the hedging of sales of spot cotton rather than of purchases. The statement made above (p. 129) applicable to the profit or loss arising from purchases of spot hedged by sales of futures, conversely stated, applies also to sales of spot hedged by purchases of futures. It is important that sales of cotton or goods for forward delivery be made at a price equal to or better than the accompanying hedge operations of futures.

Assuming, however, that cotton or goods for forward delivery are sold at a price equal or equivalent to the cost of the future employed as a hedge, the rule may be stated thus: If at the time of the purchase of cotton to apply against a hedged contract for the sale of cotton or goods for forward delivery and of the hedge sale of the future, spot cotton is at a discount (i. e., the future at a premium) as compared with the future used as a hedge, the merchant or manufacturer profits to the amount of the discount (expense of commission in placing and removing the hedge not considered); if the spot is at a premium (i. e., the future at a discount) the merchant or manufacturer loses to the amount of the premium. Should the sale of cotton or goods for forward delivery be made at a given number of points off the future, the merchant's or manufacturer's profit is reduced or his loss increased by that much. If sold at a given number of points on the future, the profit is increased or the loss reduced by that much.

Section 9. Trading in cotton puts and calls.

Both the New York and New Orleans exchanges prohibit trading in puts and calls, or privileges, by their members. This rule appears to be duly observed, nor does there appear to be any demand among the members of the exchanges or in the cotton trade for a change in the rule.

There is occasion to consider in this connection, however, certain conditions outside the scope of the usual activities of the authorities of the exchanges. Certain ostensible brokers, professing connection with some so-called exchange, circularize the public through the mails, offering the opportunity to trade in cotton puts and calls. They prefer to refer to puts and calls by some other name. They do

not appear to offer to take trades in grain puts and calls, doubtless because these are subject to a prohibitive tax, and such "brokers" could not with a show of legality make profits in that way.

The rule of the New York and New Orleans Cotton Exchanges regarding puts and calls should be given more comprehensive effect by legislation extending the existing prohibitive tax on grain puts and calls to cover cotton puts and calls. The Government should support the policy of the exchanges in this particular and should extend its effect to prevent a worse use of this form of contract than any organized exchange could afford to countenance.

Section 10. Publication of the volume of total future transactions and open trades.

A daily report of total future transactions and open trades on the cotton exchanges would seem to be desirable and in the public interest. The prompt publication of such transactions would involve little, if any, additional work for the exchanges, although it might involve the establishment of the complete clearing house at New Orleans. Reports to the New York Cotton Exchange clearing house containing all the required information as regards transactions are already made daily. The compilation of open trades would involve additional work by the members in making these reports in order to obtain the significant open-trade figure, since trades open on the books for customers, and not merely those open at the clearing house, would have to be compiled and reported by each clearing member. It should, of course, be understood that such a plan does not contemplate the publication of the names of purchasers, or sellers, or of holders of open contracts, but only totals.

The majority of the cotton trade appears to be opposed to the daily publication of the volume of transactions and of open trades. Some in effect say that the publication of exact information as to open trades in different options would interfere with the satisfactory functioning of the futures market. One New Orleans merchant says that the publication of such figures (open trades from day to day) would give a very erroneous impression. Neither the public, nor even all the people in the trade, he asserts, appreciate the function of speculators, who furnish contracts to the legitimate or hedging trade and thus prevent the sudden advance of a particular option when there arrives an unexpected demand for cotton at a particular time. Unless speculators are allowed to operate in a large quantity of futures, there would result, he claims, uneven values between months and between markets, but all these differences are adjusted by the speculator who knows the fundamental merits of the different months and the different markets and keeps them to something like a proper relation to each other. This merchant evidently confuses the publication of the volume of transactions with limitation on volume of trading. His statement is relevant only as evidence of the weakness of much of the opposition to the idea.

It is also alleged that such publication would lead to attempts at manipulation. On this point a New Orleans dealer expresses the following opinion:

> I can see where a good deal of danger lies in the posting of open contracts of customers, and at the moment I can not see where there would be any advantage. The danger would be in the fact that a certain class of speculative business would be openly encouraged to take hold of the market, knowing in which month a preponderance of contracts were open, one side or the other.

Other objections are raised. For example, a New Orleans dealer objects to such publication—

> For the reason that I don't think that the public in general are entitled to have that information in hand.

A South Carolina merchant says:

> The harm from such information would come from agitation * * * trouble makers who would have a grand time talking about overselling the crop.

It is felt by some members of the trade, however, that the daily publication of the volume of customers' open trades by options might tend to improve the hedging market. A Texas merchant said:

> I don't know whether it would increase or decrease manipulation, but I think it would be a good thing for the trade in general. For instance, if I knew that there was an unusually large amount of July futures open, I would not use that month as a hedge. I would try to use another month, if possible. The same applies if there is too small an amount outstanding. Then it would be hard to get out for covering purposes.

In this connection it should be added that some claim that the hedger would also be put in a better position to make decisions, as to the placing and the shifting of his hedges, by the publication of the volume of transactions in each option, because this would show the relative activity of the different "positions" or options. If this view is correct it would appear that the effect of such publicity upon manipulation would be to check this evil. In addition all traders would have warning some time in advance of the delivery month of what was likely to happen in that month.

Under present conditions extravagant guesses are made as to who is long or short and whether heavy trading at a particular time is due to the undoing or building up of straddle interests, etc. A New York ring broker says that he can not himself follow the operations of the houses that he trades for because they are buying and selling alternately and shifting between different months, or they may be transferring hedges, or the orders may be on account of mill fixation, or offers from the South. "I can't tell what is doing, and don't try to follow. Of course, I can guess, but can only guess." The same broker observes that such inferences are usually wrong and that it is all guesswork as to who is selling and who is buying.

The official publication of the total transactions and gross open trades each day would, therefore, go some distance in the direction of reducing misinformation and misstatements in regard to transactions in the futures market, and would enable traders to conduct their operations with better information as to what the actual conditions in the future markets were, and with greater knowledge as to what might be expected. They would have some definite general statistical data instead of mere gossip and inferences.

Section 11. The size of the unit of trading in cotton futures.

The contract unit for future trading both at New Orleans and New York is 100 bales or, more exactly, 50,000 pounds gross weight of cotton. At 30 cents a pound a single contract has a value of $15,000. There is no provision for odd-lot trading on either the New York or New Orleans Exchange.

Compared with the unit of trading in the other great group of commodity futures market in the United States, this unit seems unduly large. Five thousand bushels, which is not unqualifiedly the

grain unit, has in the case of the most valuable grain (wheat), never attained a value equal to the maximum value attained by 100 bales of cotton; and the present value of 5,000 bushels of wheat in Chicago futures is less than $6,000.[21] If there were some controlling factor in the physical handling of cotton which indicated the 100 bale unit, that fact would be decisive as to the proper unit of future trading. As a matter of fact the unit of 100 bales is too large to be put into the ordinary freight car.[22]

There are other reasons for suggesting that the desirability of reducing the size of the unit be given consideration. A smaller unit, say of 50 bales, would permit closer hedging. At present the hedge may necessarily be larger or smaller than the spots hedged by as much as 50 bales. Under a contract unit of 50 bales it would be possible to hedge within at least 25 bales of any spot lot. A further important reason why the contract unit might be reduced is in order to facilitate the making of deliveries in contiguous grade lots, should such deliveries be adopted. This has been discussed in detail in Chapter VII. The cotton trade is not unanimously in favor of such a reduction, but the reasons given by those opposing it do not appear to be entirely convincing. On the other hand, the reasons advanced for the reduction do have merit. In this connection it should be stated that the smaller merchants are the ones who favor reducing the size of the unit.

The commission recommends to Congress the consideration of legislation requiring cotton-future exchanges to reduce the size of the trading unit of cotton futures.

[21] As regards either bulk or weight it is true 100 bales of cotton is smaller than 5,000 bushels of wheat. One thousand bushels is the unit of trading on the Minneapolis Exchange. Job lots of 1,000 bushels of wheat, corn, and oats are freely traded in at Chicago.

[22] Of course, 100 bales of high density cotton can be put into some of the larger capacity cars, but cotton so compressed is not tenderable on contract.

Chapter VI

SPOT QUOTATIONS AND DIFFERENCES

Section 1. Incorrect differences one cause of discounts.

The cotton future contract is a basis contract; that is, it is an agreement on the part of the seller to deliver and on the part of the buyer to receive a specified quantity of cotton of any grade or grades deliverable under the cotton futures act, which the seller at the time of delivery may choose to tender, the price being specified for a basis grade with additions or deductions for other grades determined in accordance with the provisions of the act. The future contracts of both the New York and New Orleans cotton exchanges provide that middling cotton shall be the basis grade.[1] When, therefore, middling is delivered on the contract the price named therein is paid by the buyer. For grades above middling a certain number of points "on," that is, over the middling price, is paid, and for grades below middling a certain number of points "off," or under the middling price, is paid. These points "on" or "off," equivalent to so many hundredths of a cent per pound, are referred to as differences.

The following grades are now (January, 1924) deliverable under the cotton futures act and the regulations prescribed thereunder:

White	Spotted	Yellow tinged	Light stained	Yellow stained	Gray
Middling fair. Strict good middling. Good middling. Strict middling. Middling. Strict low middling. Low middling.	Good middling. Strict middling. Middling.	Strict good middling. Good middling. Strict middling.	Good middling.	Good middling.	Good middling.

The spotted and tinged cotton in the grades listed above is cotton showing slight discoloration; stained and gray cotton, that showing a deeper discoloration. Under the amendment of March 4, 1919, to the cotton futures act, all grades of blue-stained cotton, which is a cotton more deeply discolored than the yellow stained, are made undeliverable on contract,[2] and grades below those mentioned in each of the above groups are also excluded.

[1] The United States cotton futures act (sec. 5) provides that the "Section 5 contract," the only contract now employed by the futures exchanges, shall comply with the following among other conditions:

"Second. Specify the basis grade for the cotton involved in the contract, * * * *Provided*, That middling shall be deemed the basis grade incorporated into the contract if no other basis grade be specified either in the contract or in the memorandum evidencing the same."

[2] Prior to Mar. 4, 1919, blue-stained cotton, if not below middling, could be delivered on future contract under the cotton futures act. The fifth subdivision of section 5 of the act as amended on the above-mentioned date, while specifying yellow-stained cotton, makes no mention of blue stained, and such cotton would not, therefore, under this subdivision be prohibited from delivery on the future contract. The second paragraph of the amending legislation, however, excludes such cotton from delivery when below the grade of good middling. The report of the Committee on Agriculture of the House of Representatives on the changes made by the amendments definitely excludes all grades of such cotton by its statement of the various grades which would be included under the act as amended. The Department of Agriculture, whose duty it is to enforce the act by appropriate regulations, has construed the amendment in the light of the committee's report by excluding all grades of blue-stained cotton from delivery on future contract.

Differences for grades other than white cotton are found by comparison of the prices of those grades with the price of middling white. A yellow-tinged grade, for example, may therefore be "on," "even," or "off," depending upon whether its price is above, equal to, or below the price of middling white. Generally these off-color grades, even though above the grade of middling, are lower in price than middling white.

Since the buyer can not specify the grades which he will receive on contract,[3] the differences between the price of middling white and the prices of other grades become extremely important to him in the event of delivery. The theory of the basis contract assumes that delivery of grades other than the basis will be made at differences which prevail in the spot market at the time of delivery. For example, should differences for any grades delivered on a New Orleans future contract such as would overvalue those grades be used in settlement, such grades, if available, would almost certainly be tendered to the buyer, who would lose by the amount of the overvaluation if the difference in question was not reflected in the price of future contracts. If, for example, the buyer of a future contract should be required to take low middling at a difference of 50 points off when the difference in the spot market is 100 points, the difference on which the buyer is compelled to settle his contract in this case overvalues low middling 50 points. Unless he has purchased his contract at sufficient discount, therefore, the buyer becomes the loser to the extent of this amount.

The buyer of the contract, could he know at the time of its purchase the exact amount of the overvaluation at the time of delivery of the grades which will be tendered him, would pay less for the contract by that amount than he otherwise would. In the absence of that knowledge the buyer tends to discount the value of the contract in an amount varying according to his estimate of the possibility of loss to him from the delivery of overvalued grades. Moreover, the fact that undervaluation of some grades occurs as well as overvaluation in no wise changes the situation, since the undervalued grades will be passed over in making up lots for delivery.

A discount thus caused has no necessarily harmful effect on the hedger, since it presumably does not tend to become less as the delivery month approaches. It is the fluctuation of the discount, however, that works injury to the spot trader who would hedge, making the hedge only a partial protection, for, as explained elsewhere, a complete hedge assumes a parallel movement of spot and future prices. Such a fluctuation in discounts will also work an injury to the producer if the buying limits based upon the future on which his cotton is purchased remain unchanged in periods of widened discount. As a matter of fact, discounts are ordinarily several times larger some months ahead of delivery than in the delivery months so that causes of discount relating directly to conditions at the maturity of the option are not adequate to explain discounts generally.

Besides wrong delivery valuations the following causes of discount in the price of a future in its delivery month may be noted: First, there is an expense to the buyer, who takes delivery of cotton on contract, in excess of that incurred by taking spot cotton. Second, due to a

[3] The specific contract provided for by section 10 of the cotton futures act is not used by the exchanges. (See Sec. 2, Ch. VII of this report.)

rather common use which the spot merchant makes of the futures market, whereby he gets rid of his "overs" by making delivery thereon, a single contract of 100 bales is likely to include a varied assortment of grades, whereas the spot price with which the contract price is compared is for cotton more nearly even-running. Third, the buyer is uncertain in regard to the grade or grades which will be delivered to him. This uncertainty would be present even though the contract were even-running and even though differences were adjusted so exactly that no overvaluation of grades would occur. Fourth, the buyer is uncertain as to the time of the month he will obtain the cotton.

While these four factors, in common with possible overvaluation of grades on delivery, have a tendency to cause a discount of the spot-month future under the spot price, which may or may not be neutralized wholly or in part by existing market conditions, they differ from the latter in two important particulars; all four are comparatively definite in amount, or susceptible of valuation at so many points, and therefore make for less fluctuation in the discount; and second, all four may, through the size or character of the buyer's organization, be largely minimized, thus making for little discount; while the receipt of overvalued cotton on contract causes a loss which no buyer is able to prevent except by the purchase of the contract at a discount at least equivalent to the overvaluation.

It seems fair to assume, therefore, that incorrect differences are a highly important factor in the discount of the spot-month future under the spot price, both as to the extent of the discount and as to its fluctuation. Moreover, it should be noted that the same factors which cause the discount of the spot-month future will have a depressing influence on the same option in the months prior to its maturity.

Section 2. The establishing of differences.

The nature of the differences used in the settlement of future contracts and the method by which they are established have been changed from time to time.

Differences for New York deliveries.—Prior to the passage of the cotton futures act in 1914 differences for contract deliveries on the New York Cotton Exchange were established by an exchange committee. From the organization of the exchange in 1870 down to November, 1880, the spot quotation committee derived from the quotations on grades which they made the differences which were applied in settlement of the future contract for deliveries other than middling.

In November, 1880, the exchange rules were amended to provide for a revision committee, consisting of 8 members (later increased to 17 members), which was to meet at least once a week in conjunction with the spot quotation committee for the revision of differences and oftener if the spot quotation committee deemed such revision desirable. This method of establishing differences continued until 1888, up to which time the commercial-difference principle—that is, the principle of deriving differences from actual day-to-day transactions—was followed. In May, 1888, the by-laws of the exchange were so amended as to limit the revision committee to nine meetings a year, and in October of that year amendments were adopted requiring the

spot quotation committee to establish the market quotations for middling only, the revision committee establishing differences to be used not only for contract deliveries but for deriving so-called official spot quotations for grades other than middling. From this time on the establishing of differences was wholly in the hands of the revision committee, and the principle of periodic or fixed differences, in contrast with the principle of commercial differences was followed.[4]

In November, 1893, the rules were amended to provide that spot prices should be quoted in the daily market report of the exchange for middling upland and middling Gulf cotton only, thus dropping the quotations of other grades, which were held to be misleading. By yet another amendment in October, 1897, it was provided that the revision committee should meet only twice a year, viz, on the second Wednesday of September and the third Wednesday of November. This practice continued until the adoption of the cotton futures act in 1914, though, as a matter of fact, in several of the years no change was made at one or the other of the meetings, the differences holding for the period of a full year.

Differences for New Orleans deliveries.—In New Orleans the commercial-difference system has been employed throughout the history of the exchange, though perhaps not with uniformly the same effectiveness throughout. Prior to 1914 a spot quotation committee, composed of five members representing different branches of the trade, established quotations each day for the several recognized grades based upon the standards of the exchange.

These quotations were supposed to represent actual market values as shown by the committee members' transactions and such other transactions as they might have knowledge of. For a time quotations were based upon cotton in warehouse, sold in average lots not varying more than a half grade above and below the grade quoted. Later it was found that so small a proportion of the cotton came under the rule that it was amended to include all cotton sold on spot terms, that is, sold for delivery within seven days. The quotation for middling and the differences established by the spot quotation committee were those prevailing shortly before the close of the market, that is, at about the hour of the committee's meetings, and therefore might be at variance with some of the prices and differences made earlier in the day. Quotations therefore were not averages of the day's transactions and were not, strictly speaking, quotations for the day.

Until 1908 the spot quotation committee alone could establish the differences. On March 3 of that year an amendment to the rules provided that whenever the spot quotation committee deemed a change in differences necessary in order that they might be made to accord with actual transactions, it should hold a joint meeting with the arbitration committee on classification, which had a membership of 11 members, and in any event such a joint meeting was required

[4] Closely akin to fixed differences are the so-called spinning differences, which have been proposed from time to time, but never adopted. Such differences would be based upon the spinning values of grades other than middling in comparison with that of middling, which, it is held, might be determined from actual tests with approximate accuracy. Such a test is described in Bulletin No. 990 of the Department of Agriculture, issued Oct. 20, 1921, which shows the percentages of visible and invisible waste from the different grades of cotton tested to be as follows: L. M. white, 11.43; G. M. Y. T., 6.82; M. Y. T., 8.61; L. M. Y. T., 13.22; G. M. Y. S., 7.91; M. Y. S., 13.11; G. M. B. S., 9.23; M. B. S., 12.57. Spinning differences are considered at some length in W. H. Hubbard's Cotton and the Cotton Market, New York, 1923.

to be held monthly. The commercial-difference principle still governed in the New Orleans exchange, though perhaps less effectively.

Provisions of the cotton futures act.—The cotton futures act of 1914 defined the terms of cotton-future contracts in which it was possible to trade without incurring a prohibitive excise tax. To this end (1) the act directed the Secretary of Agriculture to establish standards for grades of cotton; (2) it prohibited the delivery on future contract of cotton which falls below certain specified grades or stipulated length of staple, or specified condition or quality, and directed that the grades of cotton to be tendered should be determined in accordance with the official standards by paid classers employed by the Government; and (3) it provided a basis contract (middling to be deemed the basis if no grade is specified) and required that in settlement of such a contract for grades other than the basis the principle of commercial differences should be followed.

The contracts of both the New York and the New Orleans Cotton Exchanges make middling cotton the basis grade. When other grades are delivered in settlement of the contract on an exchange located at a bona fide spot market the differences above or below the contract price which the receiver shall pay for such grades must, under the cotton futures act, be the actual commercial differences prevailing on the sixth business day prior to the day fixed for delivery, established by the sale of spot cotton in the spot market where the future transactions occur. If, however, such market is not a bona fide spot market the differences used must be the average of the actual commercial differences of not less than five bona fide spot markets designated for the purpose by the Secretary of Agriculture.

A bona fide spot market may be designated as such by the Secretary of Agriculture only when spot cotton is sold in such volume and under such conditions as customarily to reflect accurately the prices or values of middling cotton and the differences between the prices or values of middling cotton and of all other grades for which standards shall have been established by the Secretary of Agriculture. Under this definition of the act, and under the conditions prevailing in the New Orleans and New York cotton markets, the former has been designated as one of the bona fide spot markets; the latter has not. The differences, therefore, required to be used in the settlement of the New Orleans contract are the actual commercial differences prevailing in the New Orleans spot market, while the differences required to be used in the settlement of the New York contract are those found by taking an average of the actual commercial differences in at least five bona fide spot markets. Altogether there are at present 15 spot markets officially designated as bona fide spot markets. Of these 10 have been selected, the averages of whose commercial differences are taken as the commercial differences for New York contract deliveries.[5]

[5] Since the passage of the cotton futures act in 1914 the list of bona fide spot markets, and the list of those used for finding commercial differences, have varied from time to time. The following are the present bona fide spot markets, those italicized being the markets whose average differences are now being used in settlement of the New York future contract: Atlanta, Ga.; *Augusta, Ga.;* Charleston, S. C.; *Dallas, Tex.;* Fort Worth, Tex.; *Galveston, Tex.; Houston, Tex.; Little Rock, Ark.; Memphis, Tenn.;* Mobile, Ala.; *Montgomery, Ala.; New Orleans, La.; Norfolk, Va.;* Paris, Tex.; *Savannah, Ga.*

Section 3. Comparison of differences and discounts.

Prior to 1908.—The Bureau of Corporations in its investigation in 1907–8 of the differences then being used in settlement of cotton-future contracts found—

> that in the period from 1880 to 1888, during which the commercial difference principle was employed by the New York Cotton Exchange, fluctuations in the margin between the price of spot cotton and the price of futures were confined to moderate limits.[6]

The greatest discount of the mean monthly price of the current option, as compared with the mean monthly spot price of middling, was 48 points, while in the great majority of cases it was 15 points or less. Following the introduction of the periodic difference system in 1888 the discount was much greater, reaching in that year 96 points, and was also subject to more violent fluctuations. Again, following the change of rules in 1897 whereby the meetings of the revision committee were reduced from nine to two per year, the discount became much greater and its fluctuations more marked. In February, 1907, the discount reached 190 points. It was discovered by the bureau that these large discounts and their fluctuations were usually accompanied by a disparity between the grade differences fixed by the New York Cotton Exchange and the commercial differences existing in southern markets and the conclusion was reached that this disparity and the resultant overvaluation of grades deliverable in New York was largely the cause of the disturbed parity between the prices of spots and futures.

In respect to the discounts at New Orleans, the bureau's investigation found these to be on the whole much narrower and more constant than the discounts at New York. During the period when both New York and New Orleans were on a commercial difference basis, from September, 1880, to September, 1888, neither exchange had a discount based upon mean monthly prices greater than 50 points. From September, 1888, to September, 1897, when New York was on a periodic difference basis, but when revision might still be made nine times a year, the discount on the New York exchange exceeded 50 points seven times, while at no time did it exceed 50 points on the New Orleans exchange. From September, 1897, to September, 1907, when differences at New York were not revised more than twice a year, the discount on the New York exchange exceeded 50 points 35 times as against 3 times on the New Orleans exchange.

Subsequent to 1908.—The cotton futures act, which made important changes in the difference system for the New York exchange and in the system of quotation making for the New Orleans exchange and important restrictions in the grades deliverable for both exchanges, was passed in 1914. During more than one-half of the period since 1908, therefore, this act has been in operation. Diagram I shows for the period from 1908 to 1923 the spreads between the monthly averages[7] of New York daily spot prices and the

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[6] Report of the Commissioner of Corporations on Cotton Exchanges, Pt. I, p. 155.

[7] It should be noted that while the monthly spot price used by the Bureau of Corporations in its table of price spreads discussed above is a mean of the high and low price for the month, that used in the commission's diagram is an average of the spot prices of those days in the month for which there is a price for the spot month future. Since under the operation of the cotton futures act there is no trading in the spot month on the last five business days of that month, spot prices of those days have been excluded from the monthly average since the act went into effect. The monthly future price in the bureau's comparison is, in the case of New Orleans, the mean between the average price for the day having the highest daily average of quotations on the spot-month option and the average price for the day having the lowest aver-

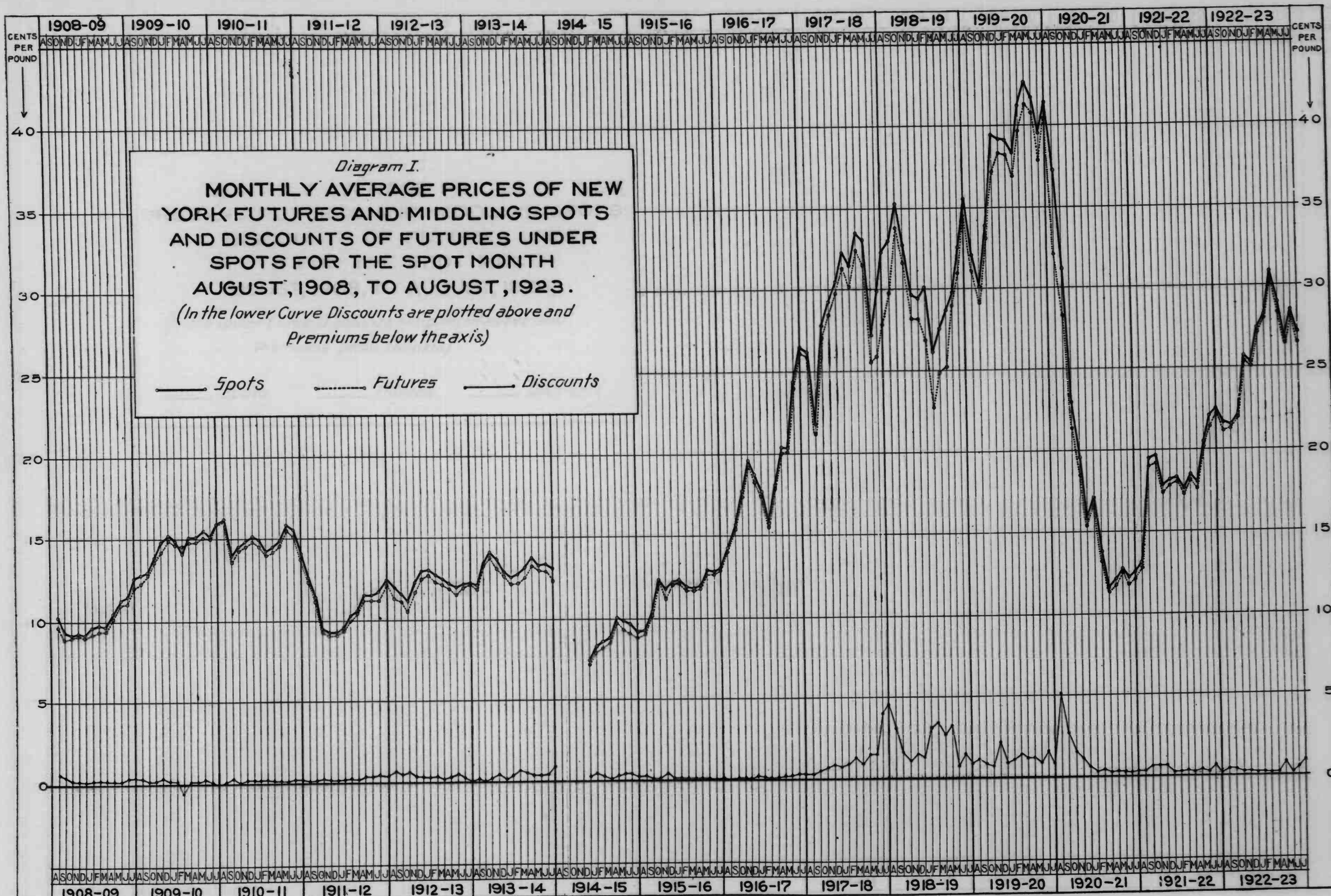
Diagram I.
MONTHLY AVERAGE PRICES OF NEW YORK FUTURES AND MIDDLING SPOTS AND DISCOUNTS OF FUTURES UNDER SPOTS FOR THE SPOT MONTH AUGUST, 1908, TO AUGUST, 1923.
(In the lower Curve Discounts are plotted above and Premiums below the axis.)
Spots
Futures
Discounts
CENTS PER POUND
1908-09
1909-10
1910-11
1911-12
1912-13
1913-14
1914-15
1915-16
1916-17
1917-18
1918-19
1919-20
1920-21
1921-22
1922-23

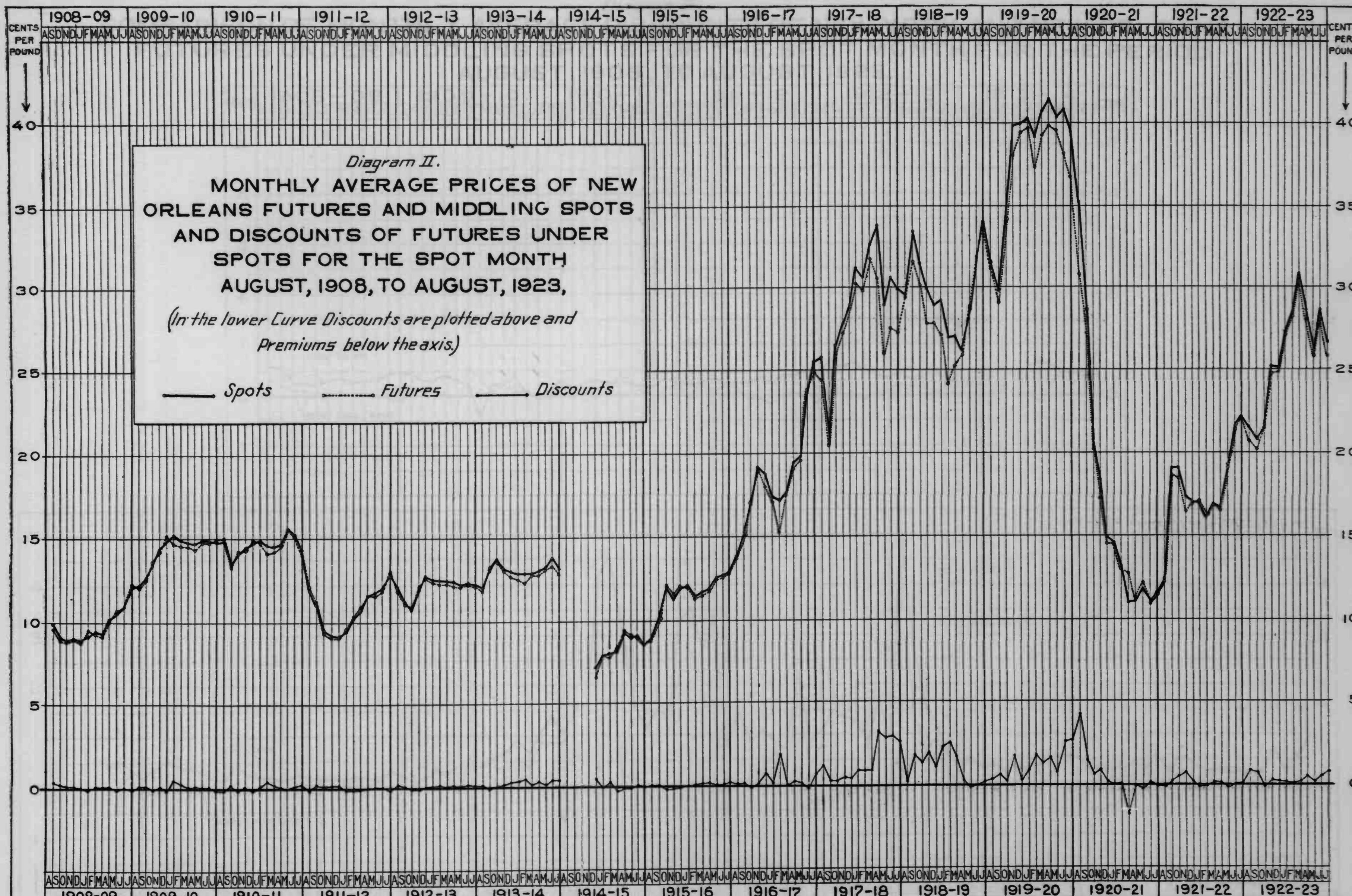

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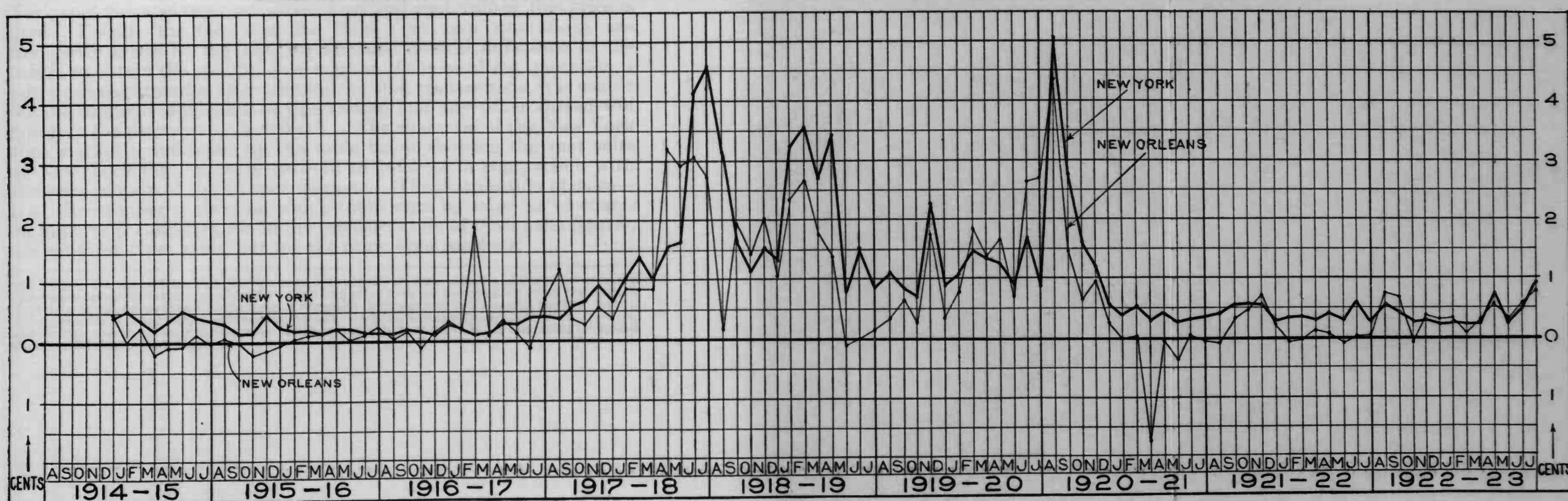
Diagram III.

COMPARISON OF MONTHLY AVERAGE DISCOUNTS OF NEW YORK AND NEW ORLEANS FUTURES UNDER MIDDLING SPOTS FOR THE SPOT MONTH FOR THE PERIOD AUGUST, 1908, TO AUGUST, 1923.



monthly averages of the New York daily closing spot-month future prices. Like spreads are shown for the New Orleans Cotton Exchange in Diagram II. Diagram III brings the spread curves of the two exchanges together. Such a diagram makes possible a comparison of the spreads obtaining on the same market before and after the passage of the cotton futures act.

A comparison of no less significance can be made from the diagrams showing the size of the contemporaneous spreads of the two exchanges, particularly for the years since the enactment of the new law. During this latter period the future contracts of the markets are alike in terms, the deliverable grades are the same and conform to the same standards, and the commercial-difference principle is recognized in the requirements for both exchanges. There is, however, a sharp contrast in the method of fixing the differences for grades other than middling for delivery on contract. On the New Orleans Cotton Exchange the differences are those quoted on the New Orleans spot market, while on the New York Cotton Exchange they are the averages of the varying differences as quoted in the 10 southern spot markets, which vary considerably one from another. Moreover, the differences for the New Orleans exchange are based on quotations somewhat closely supervised in the making, while the differences of the several spot markets making up the average for the New York exchange are based on quotations in some instances loosely supervised in the making, and in fact made in a considerable variety of ways, as appears in section 7.

The propriety of taking the New York spot price rather than a southern spot price may be questioned, because of the narrow character of the New York spot market. For the purpose merely of the comparison here made, however, and not as a recognition of the New York spot price as representative of general spot values, this price is used. Despite the fact that the New York spot quotations are frequently made by applying an assumed normal difference to the future to obtain the spot for that market, if the resulting quotation is fairly arrived at and is often checked by spot transactions, it is usable for the immediate purpose of this section and any other spread will not give the discount at New York. The character of the New York spot market is indicated by the table below showing the spot sales at New York for the years 1915–16 to 1922–23 in comparison with the sales of each of the 10 spot markets. The distribution of sales—i. e., the number of days on which there were no sales—is of course an important consideration in the interpretation of these sales figures, not only for New York, but for the other spot markets.

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age, while in the case of New York it is the mean between the absolute highest and lowest prices on the spot-month option during the month. The spread computed from the average price for all the business days of the month rather than from the mean of two prices (high and low) in the month, however, is obviously preferable as giving a more representative spread. Monthly averages of daily spot prices, therefore, and monthly averages of daily closing prices for the spot month, have been used in computing the spread shown in the commission's diagram.

TABLE 17.—*Total sales of spot cotton*[1] *by markets for 10 designated spot markets, and for New York, by years and average for 8 years, 1915–16 to 1922–23*

[In thousands of bales]

Market	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23	8-year average
Norfolk	251	174	102	155	165	99	172	126	156
Augusta	307	275	220	188	254	90	55	60	181
Savannah	205	204	229	183	159	63	73	71	148
Montgomery	81	44	40	44	49	36	27	31	44
New Orleans	260	376	363	542	568	323	476	347	407
Memphis	418	503	353	491	386	334	397	263	393
Little Rock	175	236	237	193	145	189	153	316	206
Dallas	960	1,084	1,001	806	894	[2] 918	879	974	940
Houston [3]	1,090	1,448	1,253	1,440	1,350	1,874	841	977	1,284
Galveston	225	324	454	400	427	97	292	470	336
New York [4]	404	275	200	102	59	37	61	25	145

[1] The term "spot cotton" is used as contrasted with cotton future contracts. The sales figures are those reported by the secretary of the exchange to the Department of Agriculture and include for some markets to-arrive and f. o. b. cotton as well as cotton sold on spot terms. The figures, while the best available, are not wholly satisfactory for comparative purposes, since there are included for some markets sales which are not considered in establishing the quotation. So far as known, however, all sales the prices of which are made the basis of quotations are included for their respective markets.

[2] No sales at Dallas were reported from Oct. 19, 1920, to Nov. 27. From Nov. 28 to Dec. 26, spot and to-arrive sales only were reported. Following Dec. 26, spot, to-arrive and f. o. b. sales were reported, as prior to Oct. 19.

[3] Houston sales include f. o. b. cotton.

[4] Deliveries upon future delivery contracts are not included in figures for New York's sales.

On the other hand, there is a wide disparity at times between the quotations of the several southern spot markets ranging all the way up to 625 points[8] as appears in Appendix Table VII. The table below shows how great the spread sometimes is even on the basis of a yearly and an eight-year average. Moreover, the direction of the spread is variable, one market as compared with another taking the low end of the price spread at one time and the upper end at another. Augusta and Savannah, two of the 10 designated markets, are about 125 miles apart. Savannah's quoted price for middling during the past eight crop years has an average 34 points higher than that of Augusta (see Table 18 below), yet it is frequently lower and has been quoted 300 points lower.[9] Norfolk's quoted price has averaged 48 points below that of Savannah during those eight years, yet it has been quoted 500 points above the quotation of Savannah.[9] Nor does location with reference to consuming markets appear to offer any satisfactory explanation of the disparities of quotation. Memphis, far interior, has an average quotation during the eight years of 14 points above that of Savannah, 39 points above that of New Orleans, and 62 points above that of Norfolk. Galveston has the highest average quotation, 30 points higher than near-by Houston, and only 10 points higher than the far interior Memphis.

New York is, of course, considerably without the bounds of cotton-producing territory, and its average price of spot cotton is, as is to be expected, above that in the producing area; yet it is obviously difficult to interpret the relationship of this price to the average of the 10 designated spot markets when the near-by Norfolk market's average quotation for the eight years is 89 points lower than that of New York, while the average quotations of the other more distant

[8] On Sept. 1, 1920, the spot quotation for middling on the Dallas exchange was 26.75 cents, and on the Memphis exchange was 33 cents.

[9] On Aug. 21, 1920.

markets, with two exceptions, are much nearer a parity, Galveston being only 17 points lower. This disparity between the quotations of the several spot markets appears to be due to differences in market location and conditions, in the character of the middling cotton quoted, and in the method of quoting, while the variableness of the disparity appears to be due largely to the instability of market conditions.

TABLE 18.—*Yearly*[1] *averages and 8-year average of daily quotations of middling upland cotton in New York and in each of the designated spot markets, 1915–16 to 1922–23*

Market	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23	8-year average
New York	11.98	19.28	29.68	31.01	38.29	17.89	18.92	26.24	24.16
New Orleans	11.68	18.84	28.97	29.88	38.21	16.55	17.92	25.94	23.50
Norfolk	11.62	18.85	28.82	28.74	37.32	16.93	18.00	25.87	23.27
Augusta	11.56	19.07	29.01	29.21	37.93	16.62	17.97	25.92	23.41
Savannah	11.72	[2] 19.54	29.29	30.04	38.22	17.20	18.12	25.87	23.75
Montgomery	11.37	18.86	29.15	29.19	37.52	16.37	17.48	25.50	23.18
Memphis	11.83	19.08	29.49	30.11	38.70	17.28	18.38	26.21	23.89
Little Rock	11.84	18.89	29.05	29.75	38.38	16.69	18.12	25.78	23.56
Dallas	11.51	18.43	28.47	29.64	38.95	15.79	17.84	25.31	23.24
Houston	12.00	18.92	28.85	30.26	38.77	16.33	18.46	25.94	23.69
Galveston	12.06	19.06	29.06	30.78	39.41	16.89	18.64	26.03	23.99

[1] Yearly average based upon monthly averages which in turn are based upon daily quotations.

[2] For 11 months only.

A spread, therefore, between the New York spot-month future and an average of the 10 spot markets would be affected by the unstable market conditions peculiar to the southern spot markets, making it difficult, therefore, to determine the extent of other influences on the spread. On the other hand the New York spot-month future price and the spot market price will be affected by more nearly like market and speculative conditions, particularly where monthly averages are used. Hence the spread will be little affected by these conditions and marked changes in the spread can properly be attributed to other influences.

From August, 1908, until August, 1914, at which latter time the exchanges were closed for nearly four months, the spread is fairly uniform on both markets, increasing slightly toward the close of the period, and as between the two markets is generally less on the New Orleans exchange, where it frequently appears as a small premium of the future over the spot. The spread during this period is very similar in character to that shown by the report of the Bureau of Corporations for the 10 years prior to 1908, excluding the abnormal discounts on the New York Exchange in 1907. Soon after the beginning of trading in the new contract under the cotton futures act in 1915, there is a slight narrowing of the spread on both exchanges and a somewhat greater regularity than hitherto on the New York exchange. In the latter part of 1917 the spread in the form of a discount increases on both exchanges, continuing wide for the most part until almost the close of 1920, when the spread resumes more nearly its breadth and direction prior to 1918. (Diagram I–III).

The wide and highly fluctuating discount of spot-month futures on both exchanges during the greater part of the calendar years 1918, 1919, and 1920, may be ascribed to two conditions: (1) The dis-

count of the far months as compared with the spot price is large during this period and a portion of this discount may have been carried over into the first part of the delivery month, which would appear in the average of the month; (2) overvaluation of grades deliverable on future contract may also be a cause of the wider and more highly fluctuating discount of spot-month future under spot prices on the New York exchange, and possibly on the New Orleans exchange. No absolute statistical proof of this is possible, since there is no way of knowing what the actual commercial differences are at the time and place of delivery. Evidences, however, of artificial differences, which at times cause overvaluation of grades delivered, are not lacking.

Section 4. Evidences of incorrect differences.

An examination of the differences quoted by the designated spot markets since the passage of the cotton futures act will furnish both evidences and explanation of the artificiality of differences employed on the New York Cotton Exchange in the settlement of its future contract. Appendix Table VII shows the differences "off" for good ordinary and low middling (white cotton), and the differences "on" for good middling in the designated spot markets on the first business day of each month since August, 1915. Table 19 below, based on the Appendix table referred to above, shows for each of the three grades the greatest spread between differences for the various markets for each year occurring at the beginning of the month. It should be noted that the differences given in Appendix Table VII are only those on the first day of each month and that greater or smaller differences may have occurred on other days during the month, and that therefore there are doubtless spreads between differences during each year that are even greater than those given. Important spreads between differences for different markets in connection with other grades would also be noted were these covered by the tables.

TABLE 19.—*Maximum spread between differences in various markets for each of specified grades, taking the first business day of each month for each year, 1915–16 to 1922–23*

[Spreads expressed in points per pound; 100 points=1 cent]

Year	Good ordinary [1]	Low middling	Good middling	Year	Good ordinary [1]	Low middling	Good middling
1915–16	100	50	32	1919–20	800	425	225
1916–17	100	50	25	1920–21	850	475	175
1917–18	530	555	125	1921–22	200	125	100
1918–19	405	500	150	1922–23	150	50	44

[1] Good ordinary was not legally tenderable on future contract after March 4, 1919.

The spread between the differences for the various markets on good ordinary cotton reached 850 points August 2, 1920, and even while this grade was still tenderable on the future exchanges reached 530 points in 1918. On low middling there was a spread between the market having the highest difference and that having the lowest of 555 points on July 1, 1918, and on good middling a spread of 225 points on June 1, 1920. Even as recently as November 1, 1923 (see Appendix Table VII), there was a spread of differences between markets on low middling of 100 points and on good middling of 50 points. Even though the differences for the two markets which were 100 points apart on low middling were actual commercial differences, it is quite possible that the actual commercial difference for New York, if it were made manifest by actual transactions, was as far from the average of the two markets as was that for either of the markets, in which case the delivery of low middling on a New York futures contract (assuming the quotations of the two markets as the basis of settlement) would have to be settled on an artificial difference; that is, artificial in comparison with commercial differences prevailing in the particular market where the cotton is located.

Except as a coincidence, an average of differences of so wide a range can never produce the same commercial difference for any one market as the commercial difference actually appropriate to that market, and it is reasonable to suppose that the low middling difference for the settlement of the New York contract has varied from New York's true commercial difference from time to time the last few years to a considerable extent. If, however, these differences as quoted can not be assumed to be fairly and correctly made at the different spot markets, the chance of New York securing a true commercial difference by the average method is not very good, even though it be granted that, in averaging, the errors in some markets would be to some extent washed out.

A comparison of the number of changes in the differences for low middling (white cotton) for the New Orleans and the Norfolk markets, and for the average of all designated spot markets for 1915–16 to 1922–23 is made in the table below:

TABLE 20.—*Comparison of the number of changes in differences "off" for low middling made in the average of all the designated spot markets with the number of changes made at Norfolk and New Orleans, by years, 1915–16 to 1922–23*

Crop years	Number of changes			Crop years	Number of changes		
	For average of all designated spot markets	For Norfolk	For New Orleans		For average of all designated spot markets	For Norfolk	For New Orleans
1915–16	30	2	2	1920–21	100	7	23
1916–17	9	1	2	1921–22	49	2	10
1917–18	62	4	15	1922–23	25	2	4
1918–19	43	3	8				
1919–20	74	8	12	Total	392	29	76

The table above shows, for example, that in the year 1916–17, when differences were changed comparatively seldom, there were nine changes made in the average (New York's contract settlement difference) and only one change in the Norfolk difference, and two changes in the New Orleans. In 1920–21, when differences changed frequently, there were 100 changes in the average and only 7 in the Norfolk difference and 23 in the New Orleans. During the eight years 392 changes were made in the average difference, as compared with 29 changes in the Norfolk and 76 in the New Orleans, or 14

changes in the average for every 1 in the Norfolk difference and 5 for every 1 in the New Orleans. In every year, whether the changes are many or few the number of changes is always much smaller in the Norfolk and New Orleans differences than in the difference used for New York, and in addition there is at times a considerable disparity between these differences, reaching in 1920 as between New York and New Orleans for the particular grade, low middling, more than 200 points. Even though it should be true that actual commercial differences local to New York and to New Orleans are at any time very unlike, there seems to be no condition about the two markets so different as to require one (New York) to change its difference five times on the average for every one change made by the other in order that the differences of both be kept on a commercial basis, although each change for New York may be on the average much smaller than that for New Orleans.

The explanation of the spread of spot-market differences upon whose average the settlement of the New York future contract depends, must lie either in the fact of unlike market conditions in the various spot markets or in the inaccuracy of the quotation of one or more of the differences which are taken to secure the average. It may lie in both directions. In so far as the spread of the quoted differences in the several designated spot markets is due to inaccurate quoting, it should call for a revision in the methods of quoting the markets.

It will be noted by comparison of Diagram I and Table 19, that discounts of the spot-month future under the spot price were greatest in the years when spreads of differences between markets were greatest and when therefore artificial differences for New York were most probable. It may also be pointed out that overvaluation to the receiver of cotton on future contract, one of the apparent causes of spot-month discounts, will result from artificial differences as probably as will undervaluation, although the latter is of little importance since but few bales of cotton thus undervalued are likely to be delivered.

Section 5. Spot quotations and the cotton futures act.

Before considering the methods used in quoting the spot markets in connection with the spread of differences between various markets and the overvaluation of grades delivered on the New York future contract, examination should be made of the requirements of the cotton futures act and the regulations thereunder in respect to spot quotations.

The cotton futures act requires that the differences used in settlement of the future contract shall be, for an exchange located at a bona fide spot market, the actual commercial differences of that market established by spot sales. For any exchange not so located, the average of actual commercial differences established by spot sales at several officially designated bona fide spot markets, is to be taken. The act itself, therefore, requires that actual commercial differences as established by spot sales in certain spot markets be ascertained and used in the settlement of future contracts.

That its requirements may be made effective, the act contemplates that regulations thereunder shall be prescribed and one condition that a market must meet to be designated and continued as a bona fide spot market is conformity to certain sections of the act and to the regulations made thereunder.

The regulations direct that a competent quotation committee whose organization and personnel are approved by the Chief of the Bureau of Agricultural Economics of the Department of Agriculture shall be established and maintained at each bona fide spot market. The committee must have access to a full set of the official cotton standards of the United States. It is required to obtain complete and satisfactory information not later than the close of business on each business day as to all sales of spot cotton since the close of the next preceding business day, including grades, prices or price basis, and other terms of sale, and to have access to the samples representing cotton involved in such sales. The latter provision, together with that requiring the committee to have access to the United States official cotton standards, is for the purpose of making it possible for the committee to know what the actual grade of cotton is which is reported as sold at a given price.

The above sales information is required to be kept subject to examination by a representative of the Bureau of Agricultural Economics. These regulations would appear to contemplate only such quotations as are made by a competent and impartial committee and based upon the committee's knowledge of all spot transactions in its market as reported to it or ascertained by it before the close of each day and verified by the committee's classing of the samples.

In case of no sale of a particular grade on a given day the cotton futures act contemplates that its value for the purpose of establishing commercial differences shall be determined from the sale of spot cotton of other grade or grades, in accordance with the regulations prescribed for the purpose by the Secretary of Agriculture. Under these regulations where there has been, in a given market on a given day, both a sale of a higher grade and a sale of a lower grade, the average of the declines or advances, or decline and advance, as the case may be, of the next higher grade and the next lower grade so sold, shall be deducted from or added to, as the case may be, the value on the last preceding business day of the grade whose value is to be ascertained. Where there has been a sale of either a higher grade or a lower grade, but not sales of both, the decline or advance of the next higher or the next lower grade so sold shall be deducted from or added to, as the case may be, the value on the last preceding business day, of the grade whose value is to be ascertained. Where there has been no sale of spot cotton of any grade, the value of each grade is to be deemed that quoted on the last preceding business day, except as bona fide bids and offers, or sales of hedged cotton, or other cotton sales, or changes in the prices of future contracts clearly establish a rise or fall in the value of spot cotton, when such rise or fall may be added to or deducted from the value, on the last preceding business day, of all grades affected.[10]

Section 6. The making of spot quotations.

Since there are important differences in the methods of determining spot quotations in the New Orleans and other spot markets of the South and New York, it is necessary to consider these methods somewhat by markets.

[10] See Appendix II for "Regulation 15. Price Quotations and Differences," from regulations of the Secretary of Agriculture under the United States cotton futures act.

New Orleans.—Only the New Orleans exchange employs as its spot quotations committee salaried, expert classers of cotton who have no financial interest in any phase of cotton trading, spot or future, and whose work of classing cotton and arriving at quotations is in no detailed way supervised by the officials of the exchange. The sole occupation of the members of this committee consists of quoting the spot market daily and classing cotton for the exchange. This plan has been followed in New Orleans for some six or seven years. The committee consists of three members chosen annually by the board of directors of the cotton exchange from the board of classers, the chairman receiving a salary of $6,000 a year. While members of the committee can be removed on a showing of incompetency or misbehavior, their work of quoting the market is not reviewed from day to day by any other committee or official of the exchange.

Since the spot market, unlike the futures market, is not confined to one floor space but is made up of the several factors' and merchants' offices and sample rooms where cotton is sold, extending over several squares, it is necessary for the committee each day to go from office to office to secure the prices at which the cotton was sold, or the bids and offers, at the same time determining the grade of the cotton sold. Two members constitute a quorum. Should these two disagree the third member is called in to decide the matter. The committee is accompanied on its rounds by a member of the Board of Cotton Examiners of the Bureau of Agricultural Economics. He has no voice in the decisions of the committee, but checks up the work of the committee and reports to the bureau anything which he deems should be reported or corrected.

Twice each day, except Saturday, the committee makes the rounds of factors' and merchants' offices; the first time about two hours after the opening of the exchange and the second time about two hours later. On Saturdays the committee makes the rounds but once. Offices not visited are expected to advise the committee by phone of any sale, the committee thereupon canvassing the offices to secure the necessary information.

Under the regulations adopted by the New Orleans Cotton Exchange, sales made after the close of the futures market and prior to 4 o'clock are required to be reported to the committee by phone on the day made, giving the committee an opportunity to visit the sample rooms and class the cotton before the samples are rolled up by the factor or merchant. This regulation, however, while enforced for a time, does not appear to be at present. In actual practice when the committee makes its first round in the morning it is told of sales which were made after the market on the preceding day. Such sales are marked with the letters "A. H." on the daily reports forwarded to Washington; that is, they are sales made "after hours" and do not enter into the computation of spot values unless they have been made at prices materially different from those announced at the last close of the market. If, however, such sales are reported at a price which appears to be much out of line with the prevailing market, the seller is asked to get out the samples and the committee classes the cotton in the regular way.

In making its rounds the committee collects for each sale made the quantity sold and the price. These data are checked by a report from the buyer of the cotton. Both exchange and Government representatives look at the samples and class them in their own minds. The judgment of the exchange representatives decides their class. Note is made of the date on which the sale was made, the quantity of spot cotton sold, including under spot cotton, but recorded separately, the quantity sold on a hedged basis (i. e., spot sales made on call) and that sold on f. o. b. terms. Note is also made of the quantity sold for deferred delivery and that sold to-arrive, and the grade, length of staple, and the price of spot cotton. The names of buyers or sellers are not taken. Permanent record is made of these data in a bound volume entitled "New Orleans Daily Cotton Report," except that record is not kept of individual prices, the quotation by grades for the market as a whole only being permanently recorded. Quotations by grades are made up by taking an average of prices received for each grade and are therefore quotations for the day. At the close of the market these quotations are announced to the traders at the ring, posted in the exchange room, and forwarded to the Department of Agriculture at Washington. Prices for cotton of a staple more than seven-eighths inch to 1 inch are not quoted by the quotation committee, although the length of staple is shown on the report of daily sales sent to Washington. The length of staple is important in arriving at quotations only in that it enables the committee to eliminate staple cotton in determining values. Prices of cotton sold to-arrive or on description are not considered by the committee in making quotations, prices being confined to cotton sold on spot terms.

If there have been no sales of any grade on a given day, quotations remain as on the last preceding business day, unless bids and offers, or sales of hedged cotton, or changes in futures, establish a rise or fall in the value of spot cotton in the New Orleans market, in which case the quotations of the last preceding business day are altered accordingly.

The New Orleans system of quoting the market appears to be an improvement in some respects over that prevailing in many of the other spot markets. Its making a disinterested yet expert committee responsible for determining quotations should give results that are unbiased and at the same time sound. Its requirements that all sales of spot cotton shall be reported and used as a basis for quotations and that cotton so sold shall be classed by the committee make for accuracy. The commission in its inquiry found that the system gives general satisfaction so far as it directly affects the New Orleans trade. It is urged by some, however, that the quotation should be related to the future, since so much cotton is sold on and off futures. Instead of taking an average of the day's prices for middling, the prevailing basis for the day as shown by sales would be related to the closing future. This would give a closing price so far as determined by the future, which is relatively variable, and a price for the day so far as determined by the basis which is relatively stable. An absolute closing price seems to be impracticable since often few or no sales are made at the close.

Augusta.—The quotations committee of the Augusta Cotton Exchange is appointed by the president of the exchange and is composed of five members, two buyers and two sellers appointed for two

months, and a chairman who serves 30 days and is alternately a buyer and a seller.

Under the rules of the exchange buyers and sellers of spot cotton are required to report daily to the superintendent of the exchange all purchases and sales made since the previous report, together with prices of each grade. The information thus acquired, however, is not used in making quotations. Shortly before the close of the market the assistant secretary, or his representative, gets in touch with the members of the committee, and secures their views of the spot market based upon their own firms' business and upon such transactions of other firms as may have come to their attention. These views expressed in terms of basis on the spot month for middling cotton, seven-eighths inch staple, are reported to the chairman of the committee. If there is not agreement by a majority of the members of the committee upon the basis to be used, an average may be taken. The basis thus ascertained is applied to the closing New York future price. The quotation is for exwarehouse cotton sold either by dealers or factors.

Differences for the upper and lower grades on and off middling are revised usually once a week by a revision committee, which is entirely separate from the quotations committee and is chosen to serve one year. This revision is based on the committee's general knowledge of commercial differences in the Augusta market and not on differences derived from reported prices and grades.

Savannah.—The committee on quotations in the Savannah Cotton Exchange is made up of five members appointed each month by the board of directors of the exchange, three factors and two exporters one month and two factors and three exporters the next. The chairman of the committee must be a member of the board of directors.

The rules of the exchange require both exporters and factors to report in writing to the superintendent or assistant superintendent of the exchange all purchases and sales of upland cotton seven-eighths inch staple, giving full number of bales, price for middling, differences agreed upon in value for grades above and below middling, not later than 1 p. m. daily. These reports are regarded as strictly confidential and should show from whom the purchase and to whom the sale was made, and be signed by the firm making the report or its representative. Failure to report subjects the delinquent to a fine of 10 cents per bale.

The report of the quotations committee for November, 1921, as published in the forty-ninth annual report of the exchange, states that the method of quoting the market based on average sales of the day had not been satisfactory owing to the general disregard by the members of the rule requiring them to report sales, and recommended an inforcement of the rule or its repeal. In actual practice the quotation as issued is made up by applying a basis to the New York closing future (nearest active month). This basis is not derived from reported transactions but is based upon the judgment of the committee. This quotation is for middling cotton, seven-eighths to 1 inch staple, any size lots, exwarehouse or to-arrive, sold on sample or on description, by dealers or by factors. Differences for grades other than middling are determined by the same committee and in the same general manner as for the middling quotation.

Norfolk.—Quotations on the spot market of the Norfolk and Portsmouth Exchange are made under what is known as the Memphis plan. (See Appendix 3.) The committee on quotations is appointed from month to month by the president of the exchange, and consists of three members, two buyers and one factor one month and two factors and one buyer the next month, the chairmanship alternating from month to month between factors and buyers.

Sales made by factors only are reported each day by members of the exchange to the secretary. Both sellers and buyers report the number of bales bought or sold, the grade, and the price including the basis, but not the name of the seller, in the case of a report by a buyer, or the name of the buyer in the case of a report by a factor. No permanent record of these data is kept by the exchange except the totals for the day. The secretary reports the quantity sold and the basis to the members of the committee separately, not including the chairman, each of whom casts an independent vote on the basis. In case of disagreement the chairman decides the basis. This basis is applied to the closing New York active future for the quotation on middling. Only as the secretary reports to the committee a considerable number of sales at differences other than those prevailing is action taken for a revision of differences.

Quotations are made on the basis of spot sales reported by the members and are for seven-eighths inch to 1 inch staple, Government standard grades. Sales include cotton in even-running or round lots of 50 bales or more, sold at flat price or basis middling, and on sample, on type, or on description. To-arrive cotton is not included. The quotation for middling is a closing market quotation in that the reported basis for the day is applied to the closing New York active future. Quotations are not made in this market, in the absence of sales, on the basis of bids and offers. In the case of middling the basis of the previous day rules. In the case of other grades, the old differences remain.

Memphis.—The rules of the Memphis exchange provide for a committee on classification and quotations, appointed by the board of directors and composed of five members, consisting of two sellers, two buyers, and a chairman, alternately a seller and a buyer. New men are selected each month for the committee, but some of the old members are retained so that the committee is continuous and those selected for the committee are men that it is anticipated will be active in the market during the month for which they are selected.

At the beginning of the month the new committee reviews the work of the committee of the previous month, giving special attention to the question of differences. On each succeeding day of the month the secretary of the exchange gets in touch with each member of the committee during the hour prior to the close of the market, and secures his view of the market. This view is based upon the member's own sales and a general knowledge of the market. If the committee has no knowledge of the sale of a particular grade it determines the quotation for that grade by the quotation of other grades, of the sales of which it has knowledge. If views of the members of the committee differ, a majority vote decides the question. Quantity sold is reported by the exchange member to the secretary, but price, grade, and staple are not reported.

Only upland cotton, Government standard, sold by factors on sample, is quoted. No record is made except of the final figure arrived at, which is posted in the exchange at 2 p. m.[11] each day except Saturdays, when the quotations are posted at 12 o'clock noon.

Little Rock.—The committee on quotations consists of five members appointed by the president and having a term of office of 60 days. Two of its members are factors and two buyers, while the fifth, the chairman, is a factor one month and a buyer the next. Each member of the committee submits his estimate of the price of middling cotton based upon his own transactions, and others coming within his knowledge, to the superintendent of the exchange shortly before the close of the market. If a majority of the committee agree on an estimate, that estimate is the quotation for the day. Should there be no such agreement estimates are averaged.

This quotation on middling is for all cotton, including to-arrive, all short staple, even-running and round lots (not basis middling), lots of both more and less than 100 bales, and cotton sold by both dealers and factors. It is a quotation for the day and not for the close. Differences for other grades are changed only by action of the committee called for such purpose, the basis of such changes being the transactions of members of the committee and any other transactions of which they have knowledge. Exchange members report quotations of cotton sold, the information being used for statistical purposes only.

Montgomery.—The secretary of the exchange appoints a quotation committee consisting of five members about equally divided between buyers and sellers and serving from one to three months. The quotation for middling is usually based upon actual transactions but at times on a general knowledge of the market. During the active period in the cotton trade the secretary gathers sales data, including quantity, price, and average grade, but not staple. At the close of the market each day he gets in touch with the members of the committee, submitting the sales data to them and securing from them their views of the market. Account is taken of the New York closing future price in arriving at the final quotation, which represents the spot market at the close of the local exchange.

Changes in differences are based upon information secured by a canvass of the members at certain intervals. Quotations are for factors' cotton, ex-warehouse, seven-eighths inch staple, sold on sample, in round (not even running) lots of any size.

Dallas.—In the Dallas Cotton Exchange quotations on spot cotton are reported to be made up as follows: A committee on quotations composed of four merchants and one broker appointed by the president of the exchange, to serve for one year, meets each day just before the close of the market and upon its general knowledge of the basis prevailing for actual sales applies this basis to the closing New York future price of the nearest active month, thus arriving at the spot quotation as of the close of the market. This quotation is for middling cotton, average staple, which for Dallas territory runs 1 inch or better, even running, in lots of 100 bales or more, sales within a radius of 100 miles from Dallas landed at Dallas compress. Changes in differences for on and off grades, when made, are made by this same

[11] In the summer owing to the New York daylight saving time, the closing is one hour earlier.

committee, based upon its general knowledge of sales and not upon reports of sales required of all members. Quantity sold and price are reported to the secretary each day by exchange members, but these data are used for statistical and not spot quotation purposes. Grade and staple are not reported. Under the rules a majority of the committee constitutes a quorum, and an average of the views of those present on basis determines the quotation. These views may be secured by telephone or by the circulation of a slip of paper.

Galveston.—A committee on quotations of three members, to serve 60 days, is appointed by the president of the exchange. This committee is presumed to meet each day at the close of the market, although one member of the committee constitutes a quorum and may in the absence of the other members quote the market. The quotation issued is reported to be for the day rather than for the close of the market, and is based upon the committee's general knowledge of the market and not upon a systematic and required report of all transactions made by members during the day. The quotation is for all grades sold on factor's terms. No quotations are issued as "nominal."

Houston.—The by-laws of the Houston Cotton Exchange provide for a committee on quotations consisting of five members, to be appointed by the president and holding office for two months. It is required that two of the members be buyers and two sellers (or one broker in lieu of either a buyer or a seller), one of each to retire each month. The chairman, who must be a member of the board of directors, votes only in case of a tie. Three members constitute a quorum.

The basis of quotations is actual sales of cotton sold on spot terms, bids, and offers, or any other pertinent information such as the movement of prices in the futures market. The factors report to the secretary of the exchange the number of bales sold each day, with the basis middling prices, and an average is made of these reported prices. Grade and staple are not reported. The secretary gives the derived average price to the committee, who use it, together with their own knowledge of what cotton is actually being traded in in the local market, and thus arrive at the quotation at a meeting of its members at the close of the market day, the quotation representing prices at the close of the market. The secretary then makes a permanent record of the quotation. Since grade of cotton sold is not reported by the factor, changes in quoted differences must be made on the committee's knowledge of the factor's ability to sell on and off grades at prevailing differences.

New York.—Spot quotations in the New York market are not used as in other markets to determine settlement values for grades other than middling under the futures contract. Aside from its use as a guide to the trade on the value of middling spot cotton (quotations issued on this grade only), it is employed as a basis of valuation of cotton in the settlement of losses in storage or of damages because of default in delivery on futures contract and as a basis of valuation in the making of bank loans and in the making of contracts in cotton waste.

The committee on spot quotations is made up of seven members of the exchange, appointed by the board of managers. The membership of the committee rotates, two members retiring at the end of

each month, the board of managers filling these vacancies by two new appointments. It is provided that only those shall be appointed to this committee who are more or less practically engaged in the spot-cotton business.

Provision is made by the by-laws of the exchange for the meeting of this committee at the exchange building on each full business day at 3 o'clock p. m., and on Saturday at 12 o'clock m., to confer upon, and, by a majority vote of the members present, to establish the market quotation for the time being of middling upland cotton, two members of the committee constituting a quorum at any such meeting.

Under the rules of the exchange, members are required to report all sales of spot cotton of any nature for domestic consumption or for export, or shipments by owners from their own stocks, to the secretary of the warehouse and delivery committee at his office at 2 o'clock p. m., daily, Saturdays excepted, when the reports shall be sent in at 11 o'clock a. m. Formerly it was the practice of the assistant inspector in chief, as representative of the secretary of the warehouse and delivery committee and clerk of the committee on spot quotations, to receive this information, securing quantity, grade, and price on all sales made. No penalty, however, for violation of the rule having been provided, and no provision in the rule having been made requiring the exchange authorities to treat details of reports as confidential, such reports have been discontinued, members being disinclined to give information which they appear to believe might be used to the advantage of a competitor.

The prices of such sales of spot cotton as the committee has knowledge of, as well as the prices of futures prevailing when these sales are made, are taken into consideration. If the committee has no knowledge of actual sales, the bid and asked prices for middling upland at New York are considered. In either case what is regarded as the prevailing basis for the day is established, which is applied to the bid price of the spot month future at the close, or the nominal when there is no bid price. The quotation thus determined represents the spot market at the close of the futures market. No quotations for grades other than middling are made.

Section 7. Dissimilar methods of quoting at the ten designated spot markets.

Two important explanations of the spreads between the quotations of any two spot markets for the same day are, first, that the quotations of at least one of the markets, due to methods used, are incorrect; and, second, that market conditions are unlike. The latter explanation, however, will not account for a persistent spread in the same direction as between the spot prices for middling for adjacent markets, the spread exceeding a normal handling and transportation charge as between the two markets. The same may be said of the spread between differences where middling prices are practically alike. On the other hand, methods of quoting the markets are so different that spreads in quotations may easily be due, in considerable part, to the methods used in arriving at the quotation.

The more important variations in methods of quoting cotton at the 10 designated spot markets (see Appendix Table VIII) relate to the following: (1) sources of price information; (2) extent of price information; (3) use made of the price information by the committee; (4) character of the sales transactions included; (5) methods of establishing the quotation for middling; (6) verification of sales information; (7) methods of establishing differences; and (8) methods of establishing quotations and differences in the absence of sales.

(1) The quotations may be derived from transactions of committee members and such other transactions as they may have casual knowledge of, or may be obtained from reports of exchange members on actual transactions in the market. Five of the 10 designated spot exchanges have advised the commission that they require members to report such information, which is used to assist in making quotations, a practice essential to accuracy in quoting the market, and apparently contemplated by the cotton futures act and the regulations thereunder.

(2) The character of the information secured from exchange members for the purpose of quotation making may be limited to the quantity sold and the price of middling, or include also prices of other grades sold and other terms of sale as required by the regulations under the cotton futures act. Of the five designated spot markets requiring sales information from members for quotation-making purposes, one requires quantity, grade, staple, and price to be reported; one, quantity, grade, and price (and basis); one, quantity, average grade, and price; and two, quantity and price.

(3) The quotation-making information required from exchange members may be used as a basis for a judgment of the committee as to what the quotation should be, or as data from which a quotation is mathematically computed, the committee's function in the latter case being to see that all required data are furnished and as furnished are bona fide and properly used in making the computation, and in the absence of such sales data to establish a quotation according to prescribed regulations. Of the five markets requiring quotation-making information, two appear to have combined the two methods, but none has placed entire reliance on the computation method, which alone would seem to remove all suspicion of mistaken judgment or bias of committees.

(4) The character of the transactions upon which quotation-making information is required and for which quotations are issued in different markets varies as to size of lot, whether even-running or round lots, as to character of grade and staple, as to length of staple, as to sales being made on sample, on type, or on description, whether made by factors only or by factors and others, and as to inclusion of basis middling and to-arrive sales. No 2 of the 10 designated spot markets are alike in all the above requirements for transactions for which they issue quotations, nor are all 10 markets alike in respect to any one requirement. The cotton futures act and regulations make no specific requirements in these particulars, except that by implication to-arrive sales are excluded from transactions on which quotations are based, by virtue of their not being spot transactions in the market. It should be noted that even though quotations are based upon actual transactions and accurately reflect the market, quotations made under such dissimilar sales conditions and for cotton of such dissimilar description can not be for several markets as consistently combined into one average as though the sales were made on the same basis.

Some of the markets, for example, include sales of cotton of a staple 1 inch or more, the quotation being reported as for an average staple rather than for a ⅞-inch staple. Such quotations would normally be higher than those for a ⅞-inch staple. Values of cotton sold on spot terms usually are very different from those sold on to-arrive terms. Even-running cotton is normally worth more than cotton sold in round lots. While variation in the foregoing requirements as between markets will probably cause a spread of prices more than of differences, to the extent that a variation of a given requirement in one market from that in another, does not affect the prices of all grades alike, a spread of differences will be caused.

(5) The committee may establish what it regards as the prevailing basis for the day, and by applying this to the closing New York future arrive at the quotation for middling. Such a quotation is for the day, in that the basis is found by taking into account sales made throughout the day. It is a closing quotation, in that the basis is applied not to an average future for the day, but to the closing future. The basis may be an estimate, or it may be either an estimate or a computed average when information on basis is required on sales of all members. Or the committee may, from its information on the prevailing flat price, establish a middling quotation without reference to the closing future. Such a quotation becomes an estimate if the information is limited to that picked up casually by the committee, and either an estimate or an exact average, depending upon the use made of the information, if all sales of the market are taken into account.

Such a quotation is for the day and may vary considerably from that found by applying the day's basis to the closing New York future. The regulations would seem to permit of either method being used since the sales information required to be furnished the quotation committee by exchange members includes either price or price basis. Both items are not required. Six exchanges establish what they regard as the prevailing basis for the day, four from information casually acquired by the committee, and two through information required from all exchange members. The basis thus established is applied to the New York closing future for the quotation on middling. The remaining four exchanges establish a quotation from information on a flat sales price, one on the basis of the committee's casually acquired knowledge, and three on the basis of information required from all exchange members, though one of the latter at times, in arriving at the final quotation, takes into consideration the New York closing future.

(6) In respect to verification of sales information required from members of the exchange for the use of the quotation committee, data on grade and staple may be verified by the quotation committee, as would appear to be contemplated by the regulations, or checked by a comparison of buyers' returns with sellers', or used by the committee unverified. Of the five exchanges requiring information from their members only one, through its quotation committee, classes the cotton, the sale price of which contributes to the determining of the quotation. Two exchanges require both buyer and seller to report price and grade, a method of verification not satisfactory in respect to determining the grade. The other two do not require members to report grade and staple.

(7) The quotations of differences may be established from prices at which the various grades are reported or supposed to have been sold, or determined from differences reported on actual sales or supposed to be prevailing; and by either a regular quotation committee or a special difference revision committee. Only two exchanges establish the differences from ascertained prices of all grades sold, or in the absence of sales from values established under the prescribed regulations.

The usual practice is for the committee, either by the information it casually acquires on prevailing differences, or by special canvass of exchange members from time to time, to continue or revise differences as conditions seem to demand. The regulations prescribed under the cotton futures act would appear to require that the values of all grades be first established, by actual sales, if there have been such, or, if not, by other methods prescribed therein, and that differences be computed from these values. Only one exchange has a special difference revision committee whose personnel and term of office differ from those of the quotation committee. Differences in the other exchanges are established by the regular quotation committee.

(8) Not more than two exchanges appear, from reports to the commission, to follow closely the regulations in the making of quotations when no sales of a particular grade or of any grade are made. Since in so many markets the quotation is based upon an estimate rather than upon a computation made from the prices of all sales, the absence of sales appears to offer no great obstacle to the determination of a quotation. Differences are continued in the usual way until challenged and shown to the satisfaction of the committee to be wrong, the revision thus coming about in various ways and varying degrees of promptness. There is no uniformity of procedure as between the different markets in establishing a quotation for middling in the absence of sales.

Averaging spot market differences.—In view of the great differences as between markets in the volume of sales on any given day, and particularly in view of the methods used in making quotations in the absence of any sales, there is a question whether the results of combining the differences for the several exchanges into a simple average to be used as a difference in the settlement of the New York future contract are altogether satisfactory. When no sales of any grades are made for long periods, it is hardly possible to arrive at a reliable quotation even by the most carefully worked out methods, and to give a quotation made under such conditions equal weight with that where sales are large seems open to serious question. Quotations thus made must frequently be unrepresentative of local market conditions, and will not, therefore, when combined with quotations of other markets, give a perfect average of the market conditions of the several designated spot markets.[12] On the other hand, if quotations

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[12] Except for the fact that when the testimony below was given standards for grades were less uniform in the various cotton markets than at present, and therefore quotations were less likely to be for the same thing, the criticism of the method then proposed for finding a difference correctly applicable to the New York future contract from the average of differences as quoted on southern spot markets still has force as applied to present methods:

"Mr. Hill. * * * Also under this head of ignorance there are more obsessions about how to determine the question of value between grades than any other one thing in the cotton trade. Some people believe that an average of the six principal points in the South would determine these differences. Such a proposition is ridiculous. As a matter of fact, many of these southern points will quote strict good

based on actual sales and truly representative of the several spot markets could be assumed, it might be that the simple average of the several spot market differences which gives equal weight to the values of cotton of different sections, regardless of quantities sold, would more nearly represent the New York spot market than an average weighted according to volume of sales. In such case, and that the reliability of the several market quotations might be promoted, the question of enlarging the number of designated spot markets from whose quotations the average is derived, but excluding for any one day the quotation for any market whose sales on spot terms or on other specified terms alike for all markets fall below a stipulated quantity, becomes highly important.

In some markets no sales occur for days at a time. In the crop year of 1922–23 (see table below) there were 143 business days when Montgomery made no sales, and 211 business days when no sales or sales of under 100 bales were made. Savannah in the same year made no sales on 73 days, and no sales or sales of under 100 bales on 142 days. At the other extreme was Galveston, with sales of above 100 bales on every day but 2, when none occurred. Other years, as will be seen by the table, show even greater extremes.

TABLE 21.—*Number of business days showing no spot sales, and spot sales of under 100 bales (including business days of no sales) on each of the 10 designated spot markets, by years, 1915–16 to 1922–23*

NUMBER OF BUSINESS DAYS NO SALES WERE REPORTED

Market	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23	Total for eight years
Norfolk	6	16	50	31	46	48	37	72	306
Augusta	4	9	37	4	31	13	8	32	138
Savannah	34	106	69	78	123	103	51	73	637
Montgomery	51	129	177	126	154	129	79	143	988
New Orleans	4	5	4	2	5	2	----	11	33
Memphis	2	16	17	1	8	1	1	26	72
Little Rock	21	24	11	18	12	33	4	87	210
Dallas	24	9	67	4	20	[1] 32	----	36	192
Houston	11	3	2	1	4	----	----	10	31
Galveston	[2] 13	4	----	1	2	----	----	2	22

ordinary daily, and not sell a bale of it for a month; or they will quote strict good middling daily, and not sell a bale of it for four months; and, in addition to that, if these differences were to be determined by such a test, it would not be hard to take 1,000 bales in any one of these markets on any one day and widen the differences one-half cent a pound, and by the use of this 1,000 bales fix a difference of 50,000 at this end.

"The inexperienced in cotton accept blindly the ideas that Dallas, Memphis, and Augusta quotations of the value of such grades are accurate; that they are a chronicle of actual transactions, and that the differences between the grades are conclusive. Such an idea is preposterous. It is even questionable if the quoted price of any one of these grades is published correctly sometimes.

"Bill sells Jim a horse. It is really a middling horse, 9 years old. Bill comes around to the horse exchange and tells the committee, 'I sold that 10-year-old bay plug for $100.' Jim, in turn, steps in and says, 'I bought a 7-year-old a few minutes ago and paid $100 therefor.' The spot committee makes a guess and establishes a quotation.

"Suppose, however, the price, quantity, and grade should be correctly given by both buyer and seller—an impossible supposition—even then it would require a graduate in higher mathematics, also versed in cotton, to get the algebraic answer, if the trades were made in two different markets." (Pp. 140–141, Regulation of Cotton Exchanges, hearings before the Committee on Agriculture, House of Representatives, 63d Cong., 2d sess., Apr. 22 to 25, 1914.)

TABLE 21.—*Number of business days showing no spot sales, and spot sales of under 100 bales (including business days of no sales) on each of the 10 designated spot markets, by years, 1915–16 to 1922–23*—Continued

NUMBER OF BUSINESS DAYS NO SALES AND SALES OF LESS THAN 100 BALES WERE REPORTED

Market	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23	Total for eight years
Norfolk	23	83	116	79	76	82	71	128	658
Augusta	19	53	82	35	81	78	117	150	615
Savannah	60	135	95	97	147	149	122	142	947
Montgomery	131	212	232	213	226	267	217	211	1,709
New Orleans	7	8	17	5	10	12	6	37	102
Memphis	12	30	35	4	20	11	2	71	185
Little Rock	77	62	45	39	53	49	39	113	477
Dallas	37	23	82	5	39	[1] 33	----	69	288
Houston	23	16	13	1	14	----	----	34	101
Galveston	[2] 25	8	5	5	6	2	----	2	53

[1] For 11 days in October and 21 days in November Dallas made no report at all.
[2] Galveston market not shown until August 16.

The data from which the table above is compiled show sales by days and by months. In the crop year of 1922–23, in each of four months at Montgomery and in each of two at Little Rock, there were no sales on 20 or more business days. During the whole of August, 1920, no sales were made at Montgomery; and no sales at Norfolk on 21, and at Savannah on 19, out of 26 business days, while New Orleans, Dallas, Houston, and Galveston had sales on every business day of the month. The great variation in yearly volume of sales as between the different markets is shown in Table 17.

Chapter VII

REVISION OF THE GRADES DELIVERABLE ON CONTRACT

Section 1. Sellers' options in future contracts.

Introduction.—Any intelligent consideration of the question of the revision of the grades deliverable on contract must take into account the conditions under which transactions on contract and in the spot market are consummated. The future contract is a basis middling contract under which the seller has the option of delivering any one or more of the various deliverable grades,[1] and also has the option as to the day of the delivery month when he will tender the cotton. In contrast to this situation the spot cotton sold by a spot merchant is usually in lots even running as to grade, and frequently the sale is for prompt delivery, so that the seller has practically no option as to the grades he is to deliver and in many cases less option as to time of delivery than under the present future contract. The consequence is that ordinarily a basis future contract maturing in a current or spot month will sell somewhat under the price of even-running middling in a spot market.

Recommendations of the Bureau of Corporations with regard to the grade option.—Before the passage of the United States cotton futures act in 1914 there were two general classes of complaints regarding the character of the future contract, one directed against the wide range of deliverable grades and the other at the mixture of grades which were deliverable under the terms of the contract.[2] The alleged disadvantages of the latter were, of course, accentuated by the wide range of grades deliverable at that time as compared with the range deliverable since the passage of the act.

The Bureau of Corporations reported that—

> the privilege enjoyed by the seller of a basis future contract, * * * of tendering a variety of grades or any grade instead of a specific grade has a tendency to depress the price of basis middling contracts as compared with the price of middling cotton in the spot market.[3]

The bureau further concluded that the normal discount of the contract price as compared with the spot price of middling arising from the option of the seller as to grades deliverable alone amounted to about 15 to 25 points.[4] The bureau also found that—

> another important feature of basis future contracts, and one which also tends to depress their price relatively to the price of spot middling, is that ordinarily only the surplus or temporarily undesirable grades of cotton are tendered on them.[5]

On the basis of its inquiry into contract grades the bureau stated that—

> some further limitation of cotton deliverable on contract on both the New York and New Orleans Cotton Exchanges is eminently desirable * * * the present wide range of deliverable grades tends to throw an undue burden upon

[1] See Appendix 4.
[2] Report of the Commissioner of Corporations on Cotton Exchanges, pt. 3, p. 145.
[3] Report of the Commissioner of Corporations on Cotton Exchanges, pt. 1, pp. 97 and 98.
[4] Ibid, p. 98.
[5] Ibid, p. 98.

> the buyer and to detract from the legitimate functions of future trading. It can not be doubted that the value of a contract, even if differences are properly established, is to some extent impaired by permitting the delivery of a very wide range of grades * * *. It can not be doubted that the elimination of some of the lowest grades of cotton deliverable on contract * * * would tend * * * to maintain a more nearly proper parity between the spot price of middling cotton and the price of basis middling future contracts.[6]

After considering a wide variety of suggestions for changes in the grades deliverable on contract the Bureau, while acknowledging the merit of several of the proposed changes, decided that—

> the most practical limitation upon the range of contract grades thus far suggested appears to be the adoption of the low middling clause [7] * * * such a restriction of the delivery would unquestionably make the contract a more valuable one, and would tend to prevent an accumulation of nondescript, undesirable, low grade cotton in any market where it might become a menace to the contract by depressing prices.[8]

In addition, the report recommended that no tinged or stained cotton below the value of low middling white should be deliverable.

Attitude of trade at present.—By the act of 1914 and the amendment of 1919 these recommendations were substantially adopted. If statements made by the trade are to be accepted unqualifiedly these laws went far toward correcting trade complaints regarding deliverable grades. In fact this legislation is so favorably regarded that a poll of the trade would show a considerable majority against further changes in the deliverable grades. Unquestionably many believe specifically that there should be no further change. Others are considerably influenced by the fear of what a change in this respect may involve in other respects. Some of these latter would undoubtedly like to see the deliverable grades changed, provided they felt certain that changes would stop there. Another, but smaller section of the trade, is frankly in favor of changes in the deliverable grades. But, as is shown in this chapter, much diversity of opinion exists among them as to the kind of changes which should be made.

Proposed changes.—The more important plans suggested for the revision of the grades deliverable on contract are as follows:

1. Proposals for specific grade contracts.
2. Proposals for specific group grade contracts.
3. Proposals for decreasing the range of deliverable grades.
4. Proposals for increasing the range of deliverable grades.
5. Proposals for restricting the number of grades deliverable in a single contract but without restricting the range of grades deliverable.

Some of these suggestions date from a period prior to the passage of the United States cotton futures act and practically none of them is new. Several were, in fact, considered in some detail in the Report of the Bureau of Corporations on Cotton Exchanges, now some 15 years old. That report and the data on which it was based have therefore been extensively used in the discussion of these matters in the present report.

Besides the five foregoing classes of proposals for contract revision there are many miscellaneous suggestions as to revision, which are referred to in this chapter but not discussed in detail.

[6] Report of the Commissioner of Corporation on Cotton Exchanges.
[7] Exclusion from contract delivery of white cotton below the grade of low middling.
[8] Ibid, pt. 3, p. 208.

Section 2. Specific contracts.

In general.—The present cotton futures act provides in section 10 for the future delivery of cotton of a specific grade and under the terms of this section any buyer may obtain on the floor of an exchange a future contract for 100 bales of cotton of a specific grade, provided only he can find some one who will sell him such a contract at a price the buyer is willing to pay. So far as the commission has ascertained only one contract for the future delivery of cotton under this section has ever been made. Inquiry as to the reason for this nonuse usually brings the answer that the price would be prohibitive. The alleged reason for this situation is to be found in the nature and character of the future contract and the purposes for which it is used.

The basic reason for the existence of any system of dealing in futures, so it is asserted by the trade, is its use as a hedging facility for the purpose of offsetting the speculative risk involved in the handling of the specific commodity dealt in by way of futures, thereby, according to long current argument, enabling the commodity to be handled on a narrower margin. Whether the latter always follows or not, it may be accepted as a fact that all other arguments in behalf of future trading combined are not of sufficient weight to warrant its continuance, if it were not for the hedging facilities alleged to be afforded by the system. Whether this is a sufficient justification is still an open question.

According to those using the futures market for hedging, the future contract should be a contract designed to afford protection, or a reduction of risk, to merchants and spinners who choose to take advantage of it. For purely hedging purposes, however, it is not necessary that either the seller should make or the buyer should actually take delivery on contracts. The hedger seeks compensation for fluctuations in the spot market by placing an equal quantity of transactions in futures on the opposite side of the market from his spot operations upon the theory that spot and future prices will move up and down together. In consequence he claims that his purpose is usually served by the closing out of his hedges in connection with his spot transactions, thereby avoiding the necessity of either making or taking delivery. From the point of view of hedging the future contract is not designed for the primary purpose of enabling a buyer to procure cotton. On the other hand, to be legal, the contract must contemplate delivery, and it must be possible, therefore, for any buyer of futures to compel delivery by some seller. Not only is this true but, assuming to deal with this matter merely upon the basis of hedging with the continuance of future trading, it is of the greatest importance to the proper functioning of the futures market that deliveries can be so easily made as to establish a close relationship between the futures market and the actual commodity. According to hedging theory it is the eventuality of delivery that holds the future market and the spot market together, and no stable relationship between the two can be maintained except through deliveries.

Starting from the basis of affording hedging facilities it is evident that the fundamental criterion to be observed in any revision of the grades deliverable on contract is the maintenance of a stable relationship between the spot and future markets, so that hedgers will not suffer loss from the widely fluctuating difference between the spot and future. It is from this point of view that all propositions to revise or change the grade delivery rules are examined by the trade.

Unsatisfactory hedging facility.—A future contract for a specific grade of cotton, such as could be made under the terms of section 10, is not a satisfactory hedging contract.

Its failure as a hedging contract can be readily explained. If the spread between the spot price and future price of cotton is 100 points when the dealer buys cotton and sells his hedge, it is of little or no importance to him whether the price goes up or down so long as this basis relationship of 100 points between spots and futures does not change and the question of his delivering does not arise. No matter what the price fluctuations may be the dealer is protected against loss on this transaction if this parity of 100 points is maintained, since when the spot cotton is sold the gains or losses on the spots will be exactly balanced by the losses or gains on the futures regardless of whether prices have advanced or declined. On the other hand, if this 100-point spread or basis is not maintained, the hedging dealer runs the chance of loss or gain to the extent that the futures and spots have not moved together. (Detailed illustration of this point will be found on p. 168.)

Need of a broad market.—Complaints as to the functioning of the cotton futures market show that the cotton trade is generally agreed that the less stable or less constant the relationship between spot and future prices the greater the likelihood of profits or losses and the less satisfactory the hedge from the standpoint of protecting the hedger against loss. To secure even comparative stability of the spot future spread or "basis," the hedger claims that it is of fundamental importance that the volume of trading shall be large enough to reduce the extent of price fluctuations and also to render more difficult the narrowing or widening of this spread by the manipulation of large operators for their own purposes. The larger the volume of trading and the more subdivided between separate and independent traders the narrower, it is claimed, will be the range of price fluctuation and the more difficult for manipulative operations to disturb the basis, always assuming that the quality of the trading [9] is the same and that the trading occurs under similar conditions.

To adopt a form of future contract calling for the delivery of a specific grade would, if future trading survived, divide the volume of trading among a variety of contracts and would render fluctuations in the price of each specific grade contract more extreme than under the present form of contract.

Moreover, since the available supply of certain grades would doubtless be small, the opportunity for cornering and squeezing [10] these grades would be greatly increased and thereby the risk and danger of heavy losses to sellers of contracts.[11]

As between different crop years this danger would be greatly accentuated by the uncertainty which always obtains as to the supply of

[9] A given volume of future trading may affect the market very differently depending upon whether it is hedging or speculation, and if the latter, depending upon whether it is speculation by an expert speculator or by an ignorant gambler.

[10] A squeeze is the relative heightening of the near month operation that involves an element of artificiality in its price (to be determined by comparison with what the trade legitimately expects). A corner is the same sort of thing driven to such a further extreme by a concentrated long interest that the shorts are compelled to close their contracts on terms that are in effect dictated by the cornering interests.

[11] "Wealthy speculators, having no interest whatever in the welfare of the cotton trade, would make it their particular business to bring about corners and squeezes in specific grades, and * * * the seller of specific contracts would thus be constantly subject to enormous losses." Report of the Commissioner of Corporations on Cotton Exchanges, pt. 3, p. 174.

particular grades in any new crop. As was pointed out in the report of the Bureau of Corporations:

Whereas, in the summer conditions might be almost ideal for a yield of very high grades, the quantity of such grades in the final harvest might be reduced to insignificant proportions as the result * * * of exceptionally early and heavy frosts.[12]

These risks which the seller of the specific-grade contract must assume would almost certainly result, it is claimed, in decreasing further the number of those willing to sell such a contract and in greatly increasing the price at which the remaining sellers would be willing to sell. Future prices, therefore, would fluctuate more violently. Instability of futures involves more or less instability of the spot future spread.

Futures market not ordinarily a means of obtaining cotton.—Various arguments have been advanced for the specific contract based upon the theory that the buyer should be able to obtain on delivery the thing which he buys and not a substitute therefor. This theory is reasonable enough, but it is based upon the idea that the futures market should ordinarily function as a means of obtaining cotton. As has been pointed out, the future contract must contemplate delivery, and it is also desirable that deliveries should be made. From the hedger's point of view it is not important that the futures market provide a means of obtaining cotton. It is desirable, however, from this standpoint, that deliveries be made to a sufficient extent closely to relate the spot and futures markets and thus establish or maintain the stability of the spot future spread or basis. In other words, it is of importance to the functioning of the hedging market that deliveries be made, even though this is not the end sought so far as hedging is concerned. Furthermore, it should be pointed out that the requirements of numerous buyers of futures, particularly mills, could not and would not be satisfied by a specific grade contract. To the spinner the length of staple of the cotton is equally or more important than the grade, since his machinery will spin only certain staples without resetting. In addition, character is also of the greatest importance to the spinner; that is, the quality of the staple, whether strong or weak, hard or soft, and like factors, affect the decision of the spinner in buying.

It is asserted that to adopt a future contract which would take account of all these further variations, as well as of the differences in grades, would simply accentuate the possibilities of violent fluctuations in the spot future spread.

Section 3. The group grade contract.

One of the more recent plans for a change in the grades deliverable on contract would classify the grades now deliverable on future contracts into three groups, as follows:

Class A, which shall include only middling fair, strict good middling, good middling, and strict middling grades.

Class B, which shall include only strict middling, middling, strict low middling, and good middling yellow tinged grades.

Class C, which shall include only strict low middling, low middling, strict middling yellow tinged, and good middling yellow stained grades.

[12] Report of the Commissioner of Corporations on Cotton Exchnages, pt. 3, p. 174.

The contract must specify one of the three classes to which alone the contract may apply, and in the absence of such specification class B must be understood as the class covered by the contract. There must also be specified in the contract the grade to be used as a basis in the settlement for any grades other than the basis which may be delivered, and in the absence of such specifying of the basis grade there is specified by the plan such a grade for each class.

The plan would also require that at least one-third of the contract be delivered in the basis grade, and that the remainder of the contract be delivered in any one of the four grades of the class in which the trade is made.[13]

There are some spinners who favor the threefold plan described. Thus a North Carolina mill approves the plan for the reason that it would enable a man buying a New York contract to know, in the first place, about what grade of cotton he is going to get, and to select, in the second place, the class of contract which contains those grades of cotton which best suit the grade of goods into which they are to be woven. Another North Carolina spinner writes:

I * * * am of the opinion that it should be enacted into law * * * it seems to me that it would certainly be better to know that we could demand delivery of usable cotton under the contract.

To the same effect is the statement of a Georgia spinning interest:

It has been our experience in the few times that we have tried to operate on the cotton futures [market] that contracts are all written in favor of the seller. We should not be interested in cotton futures until we can buy and demand delivery of the grade of cotton that we require to run our mill.

The proposed amendment to the bill seems to be a step in the direction of enabling buyers to get specific grades on delivery of contracts, and to this extent we are in favor of the amendment.

These opinions, it is obvious, are based upon the theory that the futures market should serve the spinner as a means of obtaining cotton.

The majority of the spinners canvassed, however, with reference to this threefold group grade contract, are clearly of the opinion that the futures market should not be regarded as a means of obtaining cotton but rather as a facility for hedging the transactions of merchants and spinners.

One of the largest northern spinning interests says:

Our use of futures is entirely for the purpose of hedging cotton purchases when we find it necessary to buy any large amounts of the particular kind of cotton our work may require at a time when we are not able to sell goods ahead in quantity. This is the normal position in which we find ourselves with short hedges against our purchases of raw material from the south. There are, of

[13] A form of contract similar to this was proposed for the New York Cotton Exchange as early as 1893 and a committee appointed to consider it. Nothing ever came of it. At a meeting of the board held Dec. 7, 1898, the chair reported in part, as follows:

"At the time that it was considered inexpedient to make any acknowledgment that our contract was not all that it should be, a suggestion was brought forward, but met with no serious consideration for the reason that the time for such action was not deemed propitious. This suggestion looked to the inauguration of a system of trading in what should be known as 'Specific Contracts' * * *.

"Without going into any extended detail * * * I would suggest that in addition to the contract in which transactions are now made there be adopted one that shall be known as the 'Liverpool contract,' which shall permit of the delivery of cotton on the basis of Middling, with nothing below Low Middling and in all the other conditions to correspond with those now governing our present contract. That another contract, to be known as the 'Middling contract,' should provide for a delivery on the basis of Middling, with nothing below Strict Low Middling and nothing above Strict Middling, with the proviso that there should be no more than 5 per cent of the contract outside of these restrictions, but not further removed than Good Middling or Low Middling, that such 5 per cent should not invalidate the delivery; and a third contract to be known as the 'Good Middling contract' which should contemplate the delivery of cotton on a basis of Good Middling, with nothing above Strict Good Middling and nothing below Strict Middling, with the proviso that there should be no more than 5 per cent of the contract outside of these restrictions, but not further removed than Middling Fair or Middling, that such 5 per cent should not invalidate the delivery."

course, occasions when we use the hedge on the long side, as for instance, selling goods ahead and not being able to cover immediately with the quality of cotton required.

From our own points of view, therefore, it is apparent that our chief requirements of the futures markets are that they be as nearly as possible a proper hedge for spot cotton. This, we believe, is also what the whole of the legitimate cotton trade needs.

To the same general effect is the following statement of a Georgia mill:

It may be argued that on the present contract, the spinner may not hedge with a view of securing his actual requirements by delivery of his contract, but that is not intended. For a southern spinner to buy a contract in New York and expect to take up the cotton, would be absurd on its face involving as it would two extra freight charges together with all the cost of contract delivery. All the spinner wants is assurance that he could, under his hedge, buy his cotton at about the basis of his contract.

Most of the opposition to the plan under discussion is based upon the foregoing argument, that is, that the primary essential of the future contract is that it shall facilitate hedging and that the proposed plan will injure such facilities, if it does not destroy them.

Considering the more concrete objections to the proposed amendment, it is asserted in the first place that it would restrict or narrow the market and the opportunity for hedging. "At the present time," says a very large and important mill, "we use the cotton exchange for hedging purposes only, and if we should buy a 'Class A' contract we might not be able to find a purchaser so easily for this contract." "In other words, the employment of such a contract would make it," quoting another mill, "exceedingly difficult, if not impossible, at times to execute orders by reason of there being no buyers or no sellers except at a very wide variation in price." "Consequently," says still another mill, "such an amendment would very decidedly have the effect of restricting the market for contracts which would cause wider fluctuations and correspondingly reduce the value of the exchange for hedging purposes."

The difficulty of hedging under this type of contract would, it is said, be greatly accentuated by variations in the relative value of the different grades. "A mill might hedge a sale of goods by the purchase of say, for purpose of illustration, a 'Class A' contract, and later, on account of there being a scarcity of cotton covered by 'Class A' contract, the premium on spots would advance to such a point that the value of the hedge would be entirely destroyed."

In the second place, the group grade contract would, it is claimed, also result in speculation and manipulation thereby further decreasing the possibility of its satisfactory employment for hedging purposes. One of the largest Northern mill interests writes:

There is no question but what it would lead to speculation in "straddles" between Class A, Class B, and Class C contracts. The result of this, it seems to us, would be almost sure to throw the grades deliverable in each of these various classes out of line with one another. In other words, there would be further complication in this respect since, owing to speculation, cotton in the different classes would be selling at differences not warranted by the supply of such given cottons and the trade demand for them. There is a great deal of speculation and manipulation through straddles between different months and different futures markets. This, however, does not throw out of line the proper differences in grades, whereas the proposed amendment would undoubtedly have this tendency.

In this connection, a Georgia mill expresses the following opinion of the amendment:

This amendment, in my opinion, would tend to work a hardship at times upon the sellers and again upon the purchasers of cotton, as at certain seasons of the year there would be a scarcity of perhaps one grade and at another time a scarcity of another grade, whereas at that very time there might be outstanding an excessive number of contracts for that particular grade, thus bringing about a corner, or if the condition were reversed, unnecessarily depressing the price of cotton.

A third objection raised by the manufacturers is that neither the A, the B, nor the C contract "specify exactly what we use, consequently we would not call for the delivery of the cotton."

To sum up, therefore, the great majority of the mills do not believe that the adoption of the proposed group grade contract would increase the quantity of cotton taken by them on future contracts, while they think there is danger that if this form of contract be adopted, the futures market will function less satisfactorily as a hedging facility than at present.

That such a contract would increase the price of the future is generally believed in the trade. It has been assumed by some that such a contract would increase the price of spot cotton to the producer. This, however, does not seem to have been demonstrated. It is contended that through the hedging facilities of the futures market the dealer is able to reduce the merchandising risk of his business, and that this decreased risk would in turn enable him to conduct his operations at a less expense and so to pay a higher price to the producer. If this argument is correct, the group grade contract under discussion would lower rather than raise prices to the producer by increasing the risk and expense of hedging.

Section 4. Discounts.

Short of the abolition of future trading any attempt to ameliorate market conditions through the revision of the future contract should be made upon the basis of improving the hedging market rather than upon the theory of rendering it more practicable for spinners to obtain cotton by way of delivery on future contracts. Revision, therefore, should be considered primarily from the point of view of the relationship of the spot and futures markets with reference to hedging facilities.

As has already been pointed out, the important consideration for the purposes of hedging is the maintenance of a constant relationship [14] between the spot and the future, and it is the failure of these prices to maintain parity that destroys the safety of the hedge. During the life of any option, however, the spot-future spread may be expected to change owing to the fact that, in the delivery month, spot and future prices must come together, or at least approximately so. In consequence, it follows that perfect stability of the spread between spots and futures is practically impossible.

Because of the fact that the spot and future must approximately equal each other in the delivery month, it can be easily demonstrated that hedge sales of futures made at discounts under spots constitute a much less satisfactory hedging basis than do hedging sales of futures made at a premium over spots.

[14] The carrying charge in the sense of either actual cost of carrying or a premium on the future is disregarded in this discussion.

The four hypothetical cases given below will serve to demonstrate this point. The first case assumes the sale of a future at a discount under the spot price at which middling cotton is purchased with prices of spots and futures coming together at a higher level in the delivery month; the second, the sale of a future at a discount under the spot price at which middling cotton is purchased with prices of spots and futures coming together at a lower level in the delivery month; the third, the sale of a future at a premium over the spot price at which middling cotton is purchased with prices of spots and futures coming together at a higher level in the delivery month; and the fourth, the sale of a future at a premium over the spot price at which middling cotton is purchased with the prices of spots and futures coming together at a lower level in the delivery month:

Case 1: Future sold at a discount under the price at which middling cotton is bought with spot and future coming together at a higher level in the delivery month. Bought middling cotton in December, 30 cents; sold May future, 29 cents; in May, both spot and future sell at 33 cents; profit on spots, 3 cents; loss on repurchase of May future, 4 cents; net loss, 1 cent.

Case 2: Same, but with spot and future coming together at a lower level in the delivery month. Bought middling cotton in December, 30 cents; sold May future at 29 cents; in May, both spot and future sell at 27 cents; profit on repurchase of May future, 2 cents; loss on spots, 3 cents; net loss, 1 cent.

Case 3: Future sold at a premium over price at which middling cotton is bought with spot and future coming together at a higher level in delivery month. Bought spot cotton in December at 30 cents; sold May future at 31 cents; in May, both spot and future sell at 33 cents; profit on spots, 3 cents; loss on futures, 2 cents; net profit, 1 cent.

Case 4: Same, but with spot and future coming together at a lower level in the delivery month. Bought spot cotton in December at 30 cents; sold May future at 31 cents; in May, both spot and future sell at 27 cents; losses on spots, 3 cents; profit on futures, 4 cents; net profit 1 cent.

In this connection the following statement of a prominent New England manufacturer is of interest:

Q. How do discounts of futures under spots affect your hedging policy?—A. That is easy. Discounts of futures under spots make hedging very hard.

Q. Why is that?—A. Because if your futures are under spots and you want to sell them, if you are buying cotton and selling futures, if your futures are always under spots, they come up each month, so you always lose money on your hedge.

Despite this statement it should not, of course, be inferred that the dealer who hedges at a discount must necessarily lose. This would be far indeed from the truth. In the first place, spots and futures do not come exactly together in the delivery month and the foregoing discussion presumes that they do. Owing at least in part to the seller's option features of cotton future contracts, future prices in the delivery month are consistently at a discount under spot prices local to the futures market. If this discount by any chance proves to be greater than the discount at which the hedge has been placed originally the dealer will, of course, make a profit on his operation even though he has carried the hedge into the delivery month. This appears from the following example:

Assume that a cotton merchant purchases spot cotton in October, 1922, at 22.05 cents per pound, the average price of New Orleans spots for that month, and hedges it at the average price of December futures in October at New Orleans or 21.68 cents. In this case he has hedged at a discount of 37 points. Having executed such transactions he could have carried this cotton into the delivery month without loss in this particular case because the discount of the December

future under spots widened in the delivery month from 37 to 60 points. New Orleans spots advanced from an average price of 22.05 cents in October to an average price of 25.48 cents in December, or 343 points, but the average price of December futures advanced from 21.68 cents in October to 24.88 cents in December, or only 320 points. While the dealer could presumably have sold his spots at an advance of 3.43 cents over the price at which he purchased them in October, he could have repurchased his future at only 3.20 cents more than he sold it for. His profit on the whole transaction would have amounted to 23 points or $1.15 per bale. Allowing, say, half of this for storage and other charges involved in carrying the cotton from October to December, it appears that in this case a dealer would have made a profit even though he hedged at a discount and carried his future into the delivery month, because the discount widened instead of narrowing in that month.[15]

Again, it is entirely possible that during much of the time between the placing of the hedge and the delivery month the discount on the futures will be sufficiently wide so that the dealer can sell out his spot cotton and buy back his futures at a good profit on the entire transaction. Discounts on the futures, therefore, do not prevent hedging but only render it more hazardous in that the tendency of the spot and future to come together is a force always working against the dealer who has sold his hedges at a discount, instead of in his favor, as is the case where the hedges have been sold at a premium. And this remains true regardless of the fact that a change in the basis either in or before the delivery month may, and frequently does, enable the dealer with his hedges sold at a discount to come out of the transaction with a profit. When hedges can be sold at a premium over the spot on the contrary this basis risk is largely eliminated since the dealer can deliver on his contract as a last resort without appreciable loss. While, therefore, the spot future spread may have changed to such an extent that he makes little or no profit, the fact remains that the dealer's loss can not amount to more than a fraction of the carrying charge, the premium on the future at the time of its sale covering either the whole or a part of such charge. In addition, the dealer with hedges sold at a premium has a better opportunity to profit from a change in the basis than has the dealer with his hedges sold at a discount. Any narrowing of the spot future spread with hedges sold at a premium will result in profit in this case, whereas if the hedge is sold at a discount the profit will come only from the widening of the discount. Since the tendency is for the spot future spread to narrow rather than widen on account of the relationship of spots and futures in the delivery month the situation of the seller of hedges at a premium is on the whole decidedly more favorable than is that of the seller of hedges at a discount.

The necessity of making hedging sales at a discount is in part dependent upon the relation of the near and distant futures. As has been pointed out the future is normally at a discount under the spot in the delivery month largely on account of the seller's option features of the future contract. In the absence of a "squeeze" or congestion, therefore, the price for a shortly maturing future month might well

[15] The averages used in this illustration are not based upon identical days, but are the averages for the entire month. Trading in futures in the delivery month does not include the last five business days of the month and the averages ought, strictly speaking, to be based on corresponding days.

be expected to show a discount under the spot price; but as a northern spinner points out, "it costs something to carry cotton. It stands to reason that July ought to cost more than December. All the carrying charges are charged against it." A New England manufacturer writes, in November, 1922: "If you have been watching the cotton futures lately, you will note that December, now the nearest active month since October has gone out, is selling at a premium of 42 points over March and 62 points over May, whereas legitimately the farther months ought to be selling at a premium on the near-by months in order to carry the carrying charges."

According to this carrying-charge theory the price of the December future in, say September, should be somewhat higher than the price of the October future, the price of the January higher than the December, of March higher than January, and so on, rather than the reverse of the foregoing. Under the former conditions a buyer of spot cotton in September might be obliged to hedge at a lower price than he paid for his spots if he sold October futures in September, but the presence of the carrying charge would enable him to hedge in a later month either at a less discount or at a premium. If, however, the reverse is the case, and in addition to the discounts of the immediate future under spots each of the later futures is at a discount under the preceding future, a selling hedge must be placed at a discount, no matter what particular delivery month is selected.

This accentuates the difficulties of the hedge seller. If he sells the near month the spot future spread will probably narrow, while the fact that the more distant futures are at a discount will frequently preclude the subsequent transfer of hedges except at a loss. "If, for instance," remarks a New England manufacturer, "we have December futures sold as a hedge and are not ready to close our hedges out when December comes and wish to transfer into, say, March, we suffer a loss unless March is at a premium over December."

In addition, the hedger is confronted with the more or less prevalent danger of squeezes in the near positions, which may force him to buy back his future at a higher price than would be the case under the existence of a more normal condition in or just before the delivery month. Under such conditions the dealer, if he desires to sell the hedge, can be expected to sell the distant positions, even though in such a case the discount at which he places the hedge under the price at which he has purchased his spot cotton will be greater. With the more distant months sold there is less likelihood of an early narrowing of the spot future spread on account of the approach of delivery, because the maturity of the option is too far distant. The dealer largely eliminates his risk of being caught in a "squeeze," provided he does not allow his hedge to remain in too long. Given a longer period of time before the maturity of the option there is a greater opportunity for discounts to widen.

This situation also affords more time for development of straddle or spreading operations between months or markets, designed to obtain incidental profits, or to offset possible losses from hedging operations proper. It is possible, if not probable, that these latter operations (which frequently are undertaken because a reasonably safe hedge can not be obtained), are a factor contributing to unsatisfactory hedging conditions since they may force futures out of line with the carrying-charge relationship.

In view of the foregoing conditions and considerations, the effect on hedging facilities of any revision of contract grades becomes a question which is concerned not only with the stability of the spot future spread but also with premiums and discounts of spots and futures and with price relationships between the near and distant options within the same crop year.

Section 5. Proposal to decrease the number of the deliverable grades.

In general, in favor of decreasing the present range of grades deliverable on contract it is argued that this would tend to raise the price of the contract in relation to spot cotton since such a contract would be less freely sold owing to the greater difficulty of delivery. A Memphis dealer says that:

> The only suggestion he has to make with regard to the futures act would be to make fewer grades tenderable * * *. The bulk of the cotton produced will come within about six grades—low middling up to strict good middling. The other grades which are tenderable constitute but a small part of the total and there is little demand or market for them. At present if a dealer takes delivery on a contract he is quite likely to get cotton of these odd grades for which there is no market and which he can not use except for tender again on future contract. The cutting out of these grades would increase the value of the contract.

"Any material narrowing in the deliverable grades would tend to bring futures more closely in line with spots," observes a leading spot cotton merchant. "A contract, for instance, for basis middling, nothing below strict low middling and nothing above strict middling, is in an average season more nearly worth the same price as even running middling [16] than a contract of basis middling taking in 10 or 12 grades."

The objection urged by the trade to such a plan is the increased danger of manipulation by way of squeezes and corners. A decrease in deliverable grades, it is asserted, would increase manipulation because the fewer grades deliverable the easier it would be to get control of them. "To make it a very extreme case, say there was only one grade deliverable," observes a Texas dealer, "we might have 1,000,000 bales in the country but you could only tender 100,000 bales on contract; consequently, the people who had that 100,000 bales could do what they wanted to with the market." Another Texas merchant says that "whenever you decrease the number of grades—or rather the amount of cotton that is available for tender—you automatically help a man who is attempting to squeeze any month or market."

In the case of an extremely narrow or limited range of grades, moreover, the possibilities of loss to sellers of contracts irrespective of manipulation are serious and would no doubt tend to restrict trading. The possibilities in this connection are thus set forth by one of the leading spot cotton merchants:

> A decrease in the deliverable grades would, at times, increase the risk of loss to the seller. As an example: A merchant in the early fall when grades are running good, accumulates a considerable stock of cotton. He sells January as a hedge (basis middling, nothing below strict low middling and nothing above strict middling). Let's assume that his stock of spot cotton consists of 75 per cent of these grades. With bad weather occurring subsequent to his purchases,

[16] In this connection it should be noted that the spot quotations of the various markets are not necessarily quotations for even running cotton. Reference to the chapter on spot quotations and differences shows that in most of the designated spot markets the quotation for a given grade may represent cotton sold either even running or in round lots or both.

the effect would be to widen out the differences on his untenderable cotton (25 per cent of his stock). His sold hedge, being a contract permitting the delivery of only three grades of white cotton would become valuable in a low-grade year, and might easily advance to the point where he would have to make delivery or transfer at a heavy discount to a later position. In addition he would face a heavy loss on the untenderable portion of his stock.

The greatest difficulty with such a contract would come in the spring and summer when the stock of good cotton usually gets very low. The trading would become very narrow because sellers would be disinclined to sell futures except at a premium over spots sufficient to cover a commission for buying the cotton and delivering on contracts and at this level buyers would be scarce. In very low-grade years such a contract would be unworkable. It is quite conceivable that the volume of contracts open in one month might at times exceed the amount of such cotton available for delivery on contract, making necessary an arbitrary settlement of such contracts, liquidation through natural processes being impossible. There have been seasons when it would have been impossible to find 100,000 bales of such cotton available for delivery; for instance, on July [1923] contracts.

As has already been pointed out the advantages of increasing the value of the contract irrespective of obtaining thereby a more stable and constant relationship between spots and futures do not appear to be demonstrated, while the possibility of increased manipulation and impaired hedging facilities involved in such an increase can not be ignored.

Section 6. Proposal to increase the number of deliverable grades.

Restriction of manipulation.—Several persons interviewed by the agents of the commission in the course of the cotton inquiry expressed the opinion that an increase in the number of grades deliverable on contract would be most desirable. The following statement of a Norfolk merchant quoted from the report of the agent is typical:

Additional grades should be made tenderable on contract * * *. Strict good ordinary cotton is desirable for spinning and should be deliverable and so should the middling tinges and low middling tinges. The addition of these grades would help to decrease manipulation, and they should be deliverable as a matter of fairness because they are spinnable.

This position, moreover, was taken not only by certain members of the trade but also by a few northern spinners. An analysis of the reasons for this attitude, however, discloses that the increase in the grades deliverable is usually sought either in whole or in part as a check or remedy for squeezes of the near positions which have been of more or less frequent occurrence in recent years, particularly at New York. In this connection one northern mill states:

There are big fluctuations there, and the squeezes come from the big fluctuations and the ability of the New York crowd, with plenty of money to corner a certain month and that, I say, is what you want to do in trying to improve matters; that is, get as big a lot of cotton as possible that can be tendered in New York, so as to make the fly wheel so big that they can not monkey with it, or at least have less show of monkeying with it.[17]

Another northern manufacturer points out that—

as a mill we do not deliver or take actual contracts in New York and that we only use these contracts as a hedge against purchases of cotton from the South and that we are, therefore, desirous that as wide a delivery as possible should be permitted in a contract in which we are hedged in order to eliminate all possibility of a squeeze.

[17] It may be noted that an increase in the deliverable grades may not always be so much of a protection to the seller if the futures are at a discount under spots. As one merchant points out: "Theoretically an increase in deliverable grades affords an added measure of security to the seller; it will, however, at times result otherwise because relying on this added measure of security sellers may put out contracts at too great a discount under spots, with resulting losses in liquidation or delivery."

To the same effect is the following statement, also that of a spinner:

By fooling with the contract in New York, where they have eliminated low grades and rag tag cotton, and a lot of other things, and white cotton only is deliverable—in New York and can be applied to this contract—it is much easier to squeeze the near months than when you could deliver anything out of the crop, practically. To my mind that accounts to some extent for the discounts of the distant months as compared with the spot months.

W. H. Hubbard, of the firm of Hubbard Bros. & Co., states (in Cotton and the Cotton Market, p. 397), that—

some provisions of the Cotton Futures Act have increased the danger of a squeeze. The low middling clause has made it more difficult to ship cotton for delivery * * *. Not only are strict good ordinary and good ordinary no longer available for contract delivery but the danger of rejection has been very much increased.

It may be granted without much argument that increases in the deliverable grades would tend to reduce the possibilities of bull manipulation by way of squeezes of the near month, but that is not the whole question by any means. As one Texas merchant observes, "you have to take into consideration whether by having more grades [deliverable] you would not do more harm to your contract." In other words, desirable as it doubtless is to prevent squeezes of the near positions, it would certainly be unwise to adopt an increase to secure the prevention of such operations at the cost of injuring the hedging market.

Improvement of hedging market.—There are certain members of the trade who discuss the question of increasing the deliverable grades from the standpoint rather of the effect upon hedging facilities than of the prevention of manipulation as such. A Texas merchant argues for the increase in deliverable grades as a means of creating premiums on the distant delivery months as follows:

I think the enlarging of the number of grades deliverable on contract would do more toward the creating of carrying charges on deferred months than any other measure proposed. My reason for this is that it would give more latitude to the seller of near months and, most of all, it would make it harder for manipulators to enter the market and corner the near-by positions, because they would have more grades to take than they would otherwise. I have always thought that. * * * I rather think that an increase in deliverable grades, with the present method of establishing differences in the future market, would bring the spot month nearer than it is now to the actual value of cotton. Our trouble recently has been—like May at present [1923]—standing up on stilts.

An increase in deliverable grades would make it possible to hedge more satisfactorily. As I said before, I think it would prevent undue manipulation in the near months, and would result in a premium of the months following, which would give a legitimate carrying charge to cotton being carried on a hedge basis.

I do not think any increase in the number of deliverable grades would lower the value of the contract, because I think it is automatically adjusted in the differences between grades under the plan which you now have.

This point of view is undoubtedly of considerable importance for it is the quite general testimony of the cotton trade that dealers almost always place their hedges in the distant delivery months through fear of squeezes in the nearer positions. It is indeed possible, as has been suggested above, that the more restricted deliveries prevailing since the passage of the United States cotton futures act have rendered squeezes more frequent. In so far, therefore, as this has been true and hedge sellers have been forced to the more distant positions, the restriction of grades has perhaps been undesirable, but it still remains questionable whether the proposed method of curing these conditions

is to be found in the increase of the deliverable grades unless as an accompaniment of other changes in the contract.

Effect on value of contract and spot futures spread.—The doubtful value of increasing the deliverable grades is due to the probability that, although the danger of squeezes might be appreciably reduced by this remedy, the discount of futures under spots would be increased. In other words, as a prominent cotton merchant says:

> The greater the number of grades tenderable on a basis middling contract, especially if running to good ordinary white and low middling tinges, the lower that quotation is apt to be as compared with an even running middling quotation.

It is argued by one dealer that—

> if you had an increase of deliverable grades the contract might be made a dumping ground for all kinds of off-grade cotton for which it is difficult to find buyers; and this would injure the hedging market all right, because lots of people would not want to buy a contract if they knew they might get a lot of junk on hand if they took up the cotton on contract.

Moreover, any considerable increase in the number of deliverable grades might result in deliberate attempts to depress the contract market by the delivery of the most undesirable grades. Thus, it is claimed by one merchant that—

> an increase in deliverable grades would increase the chance for manipulation, on the bear side, for this reason: At the present time we are limited to a reasonable number of grades—grades that are ordinarily considered readily salable. If you increase the grades deliverable you make an opening for the contract markets to take in qualities which are frequently not salable, and which could, therefore, be used to deliver on contracts with a depressing effect.

Many merchants have apparently not forgotten the character of the New York deliveries years ago before the passage of the cotton futures act, and they can not be persuaded to believe that an increase in the deliverable grades is desirable.

The value of the contract and the spot-future spread would also, it is claimed, be unfavorably affected by an increase in deliverable grades through the fact, as one South Carolina merchant puts it, that "the [present] undeliverable grades can not be sharply and unmistakably defined and determined." The field for the distribution of such cotton is limited. Not every concern can handle it readily and the possibility of receiving it on contract would diminish the desirability of the contract from the standpoint of the buyer.

The statement of W. L. Clayton, representing the New York Cotton Exchange, at the Federal Trade Commission's cotton conference, on this point, is as follows:

> The CHAIRMAN. You favor, as I take it, the present law for ten tenderable grades?
> Mr. CLAYTON. I do.
> The CHAIRMAN. Would you go back to the old 20 deal?
> Mr. CLAYTON. No, sir; I would not.
> The CHAIRMAN. Why not?
> Mr. CLAYTON. For this reason: If you buy in the low grades—I do not call your [low] middling cotton a low grade; it is a perfectly merchantable grade, and it is salable in almost any part of the world; but if you inject in there tinges and stains and strict ordinary and *common* [good] ordinary, you put in a kind of cotton that is more or less a specialty. It is not even every merchant who can merchandise that cotton. You narrow the field of possibilities of distribution of such a cotton. When you do that, you do the same thing that has happened in Liverpool time and again. It happened this past summer. You have got a specialty, a quality that the average merchant can not handle and that cotton will make the value for basis middling, [that is] the certificating of said cotton in the deliverable grade[s]. While I can get this ordinary or *common* [good] ordinary I can not merchandise such cotton the same way I can low middling or difference [?], and I can not undertake to get a quantity of cotton that I have no market for, and at times you hear argument of why the strict ordinary and *common* [good] ordinary are perfectly merchantable grades of cotton, and there are one or two mills that make the goods that this cotton enters into, and that can manufacture that sort of stuff, but you will find that there are only 5 per cent of the mills that do that, and as to the other 95 per cent it is a thing apart; it is just like anything else. They can not use it.[18]

The probably wider spot future spread would render satisfactory hedging more difficult, and this probability is no doubt responsible for the fact that certain cotton men are opposed to increases in the deliverable grades. A Memphis cotton buyer, for example, states that formerly he was in favor of having all grades of cotton deliverable on future contract, but that after giving the matter a good deal of thought and study he concluded that it would tend to increase the spread between spots and futures and would be detrimental.

Decreased value of lower grades.—It is also argued in favor of the increase of deliverable grades that a restricted contract reduces the value of the lower grades. The following is the statement of a New Orleans merchant:

> Personally, I have always been against the restricting of the deliverable contract. I believe the broader the contract the better it will serve the trade. As a matter of fact, there is but a very, very small percentage of cotton ever delivered against future delivery contracts; so the talk of restricting certain grades is more technical than anything else. I regard the present contract as too narrow, for the reason that when we make low grades, as we are bound to do under certain weather conditions, a large percentage of the crop is not available for contract delivery.
> Q. What effect does that have on the price of that cotton?
> A. This has a sentimental effect and tends to depreciate such qualities.

To this it may be replied that estimates made by various spot merchants would indicate that the present range of deliverable grades would include from 75 to 85 per cent of the cotton crop, so that inability to deliver the other and lower grades is not an exceedingly serious matter, more particularly in view of the specialty character of such cotton.

Section 7. Even-running and three adjacent or contiguous-grade contracts.

Introduction.—According to S. T. Hubbard, sr., a former president of the New York Cotton Exchange, three distinct contracts for the future delivery of cotton were presented to the exchange for consideration and adoption at the time of its formation.[19]

> 1. A contract for the delivery of cotton of an even-running grade.
> 2. A contract for the delivery of an average [20] grade.
> 3. A contract for the delivery of all merchantable grades or [at] a basis price for some fixed grade, with additions or deductions for the other qualities delivered.

Some interest attaches to the statement of Mr. Hubbard, as showing that even at the time of the formation of the New York Cotton Exchange there was some opinion in the trade itself that an even-running or contiguous-grade contract would be desirable. This

[18] Hearings, Pt. II, pp. 291–292.
[19] S. T. Hubbard, before the National Association of Cotton Manufacturers, Boston, Mass., Apr. 24, 1907.
[20] See succeeding subsection.

opinion has remained more or less current ever since, both in the trade and among the spinners. While there is a decided majority of the trade opposed to a contiguous-grade or even-running contract, the files of the Bureau of Corporations and of the present inquiry establish the fact that there has been and is a certain amount of opinion in the trade favoring the adoption of some form of either the one or the other of these two contracts.

Definitions.—The term contiguous-grade contract refers to one on which the delivery must be made from within a range of some limited number of any of the present contract grades that are adjacent to one another. As used in this discussion, the term refers to deliveries from a range of any three adjacent grades of those now deliverable.

An even-running contract refers to a contract under the terms of which the delivery must be made in lots of not more than a single grade in the case of any one contract.

In the Bureau of Corporations' report on cotton exchanges and in the data obtained in connection with that report the term "even running" is used substantially synonymously with a three contiguous-grade contract. The term "average" was also applied in this report and the data on which it was based to a three contiguous-grade contract. Quotations from the bureau files and report, therefore, should be read with these points in mind.

Even-running compared with contiguous-grades.—As between an even-running contract and a contiguous-grade contract, the latter is probably the more desirable. One of the things undoubtedly important for adequate protection by hedging is a broad market. It is chiefly because of this consideration that many members of the cotton trade object to any further restriction on deliverable grades, and that other members of the trade advocate a return to a form of contract which will embrace a much wider variety of grades than those which are now tenderable.

In other words, the greater the option of the seller as to delivery the more readily and freely the contract will be sold, while vice versa the more restricted the option of the seller the less ready and free the selling. The even-running contract would seem to impose a somewhat greater hardship on the seller, and so exercise a more restrictive effect upon a broad market, than would the contiguous-grade contract. That fully compensating advantages would be obtained by the employment of the former may be doubted. It is true that the price of this contract would be higher than the other, but for the hedger an increase in the price of the contract is not so important as the maintenance of a more constant relationship between the spots and futures. Unless, therefore, it can be shown that the even-running contract will serve to maintain a better relationship between spots and futures than the contiguous-grade contract, the latter might be preferred by the hedger. The difficulty of classing cotton into even-running lots is apparently greater than classing into contiguous-grade lots, thus increasing the danger of rejection on delivery. With contiguous grades more latitude is allowed to the seller than under the even-running contract. In view of this fact it would seem logical to provide, in case of the employment of an even-running delivery, for a tolerance of, say, 5 per cent in the delivery, so that rejection would not occur in case a few bales should fail to grade.

Furthermore, it was stated by W. L. Clayton at the Federal Trade Commission's cotton conference that in practice deliveries under a contiguous-grade contract would probably be substantially even running. Mr. Clayton said:

> I think probably what would happen if you had contiguous grades is that the tenderer would be compelled as near as he could to deliver even-running cotton, because to allow for the variation between his idea of the class and the Government classer's idea of it. If I had to make delivery of cotton under a contiguous-grade contract, I would try to deliver even-running middling in the hope that the Government classers would find nothing below strict low and nothing above strict middling, * * * so it would come within the requirements of the contiguous-grade provision.[21]

From the foregoing considerations it may be concluded that the more desirable form of contract revision is the three contiguous-grade delivery rather than the even-running contract.

Section 8. Restrictions imposed on sellers by contiguous-grade contracts.

Overs.—One of the common objections raised by cotton buyers to a contiguous-grade contract is that "the bulk of the merchants in the South buy basis middling, and take the grades above and below. He does not know at the time he makes his purchase what he is going to get. He has to wait until it is in the compress and he gets his samples * * *. A man buying cotton and selling it for even-running, and [or] selling average middling might find himself in a very embarrassing predicament." [22] "The growers sell their cotton as grown, which means all grades" argues another dealer. "The merchant buys the grower's crops as grown, and is entitled to a hedging contract against his purchases which is in line with his purchases."

To put the argument in another way, cotton is sold in the interior in widely varying lots, basis middling, the grades above and below to be paid for at prevailing market differences. The dealer hedges by future sales of a basis-middling contract, grades above and below to be paid for at prevailing market differences. The dealer, having bought and hedged, then classes out the cotton which he has purchased into even-running or contiguous-grade lots and disposes of them to spinners and others.

In so far as he delivers on contract he is not likely to deliver the even-running or contiguous-grade lots, but instead tenders any miscellaneous lots or "overs" that he may have left after he has classed out the balance of his purchases into merchantable lots. It is contended that to deprive the merchant of this privilege would be to impose on him a considerable hardship and to render the futures market less satisfactory for hedging purposes.

This view is fairly reflected in the statements of a New Orleans merchant, made at the time of the Bureau of Corporations inquiry:

> As a buyer I would like an average-grade contract permitting the delivery of say only three or four grades, or of one full grade, with a range of one-half grade either way. I do not think, however, that such a contract is, on the whole, practicable. As buyers of cotton in the country we take the crop as it runs. Suppose we can not place that cotton in any given market and have on hand several hundred bales of various grades. We might be able to close out only a

[21] Hearings, Pt. II, p. 479.
[22] Hearings, Pt. II, p. 293.

few hundred bales in lots large enough to meet the requirements of such an average-grade contract. Instead we might have a lot of odds and ends. Suppose we had sold futures against this cotton. We would nominally be hedging but practically would be short because the cotton would not be a good tender. I think that if cotton is of merchantable grade it should be tenderable on contract.

Q. Does it happen that many persons who might desire to use the contract system would have so little cotton that they could not class it out into even lists of the class described; or would this be a hardship for even larger houses?

A. It might possibly be a hardship for any house, because a man handling 100,000 bales would ship all of his cotton except "overs," and he would not be able to get rid of these overs on contract.

The point of view expressed by the foregoing opinions and discussions, however, is not universally shared by cotton merchants, as appears from the following statement made in 1923:

Now, then, with 13 grades deliverable, he can give you an equal quantity of the 13, or give you all 13 in different quantities; and the spinner don't want that kind of cotton; and the spot merchant, who is interested in distributing the cotton to the spinner, don't want that kind of cotton on a contract, because he has got to go to work and work up his deliveries. Of course, the counter argument is going to be that if a man out in the country—a spot merchant—buys basis middling cotton he is liable to get all of these different distributions of grades; yet, on the other hand, the spot merchant knows, at the time he is purchasing in a certain locality, that the cotton is running about an average of so and so; but he don't know in New York what somebody is going to be able to give him, one month, two months, or five months ahead. That is the argument they always put up to you. A fellow buys basis middling cotton all over the country; but he is buying it with the certain knowledge of what that section of the country is producing. If he buys it in New York he is liable to get grades that are being produced in South Carolina, or north Texas, or west Texas.

Moreover, it may well be questioned whether or no the futures market ought as a practical matter to serve as a dumping ground for these miscellaneous lots. If the primary purpose of the futures market is to afford hedging facilities, why should inability to deliver mixed and variously assorted lots of overs be urged as an objection to the change? As a Texas merchant well says:

Practically all spots are of a particular character which the individual buyer has a place for on a commercial basis; whereas, the futures market has to take care of indiscriminate cotton—that cotton which is not desirable, and which nobody wants for any particular purpose; and, therefore, in the very nature of it, it is not worth as much as cotton that is bought to merchandise.

On this point the following colloquy of a representative of the bureau of corporations with a gentleman well known both as a cotton dealer and a future operator is also of interest:

Q. A man would have 5 or 10 bales of Middling, 10 bales of Low Middling, etc., and under the present system he could tender; whereas, if he sold such an average grade contract he could not make a tender. Is that a valid objection or not?

A. It is a question whether or not a man who had odds and ends that way should affect the price of other contracts—he has only a remnant after all—whether that should affect the value of other contracts. That would give him the privilege of getting rid of his odds and ends, but at the expense of people who have a large amount of cotton. It is a question whether other people should be affected.

It is questionable whether inability to tender miscellaneous lots is a serious objection to a contiguous-grade delivery. As already indicated, the vital consideration in the matter of contract revision is unquestionably the improvement of hedging facilities through the improvement of the relationship between spots and futures. And there would appear to be little reason for doubting that the tender of miscellaneous lots of cotton tends to depress the value of the contract.

Effect on small merchants.—A much more serious objection than the foregoing would seem to be the possibility of the adverse effect of a contiguous-grade contract on the smaller merchants. To the bureau of corporations it was urged that—

Whereas a large cotton merchant might have thousands of bales of cotton on hand throughout an active season and would thus be able to class his cotton out into fairly even-running deliveries, a merchant handling only a few hundred bales would often find himself unable to make up such even-running lots of the contract size—roughly, 100 bales.

The inevitable effect of such a contract would thus be to deprive such small dealers of the opportunity of using the contract market with the expectation of disposing of their surplus stock, since, while they might have more than 100 bales of cotton on hand, they would not have a hundred bales sufficiently even running to be tendered in satisfaction of a contract previously sold. In other words, with cotton on hand, such merchants would find themselves short in the contract market.

In answer to the above, a cotton merchant of New Orleans said:

In the first place, small dealers do not tender on contract; it is only the big dealer; and he generally picks out the most undesirable stuff to tender, and generally for the purpose of depressing the market in order to buy in his contract, of which he generally sells two or three for every one he expects to tender. And, another thing, it is a hardship on the man who received cotton where you make him receive all sorts of odds and ends, running from fancy [fair] to good ordinary.[23]

In so far as contiguous-grade contracts might prove to be a hardship to the small dealer, through the fact that he could not deliver "overs," it has been suggested that if the contract were reduced from 100 bales to, say, 50, or perhaps even a smaller number, the ability of the small dealer to make deliveries would be increased, since he would presumably be able to class a larger proportion of his cotton into even-running or contiguous-grade lots than is now the case.[24] (Chapter VII, section 9.)

Expense.—It has also been objected by sellers that such contracts would handicap them because of the expense of classing out the cotton into even-running or contiguous-grade lots and would act as a deterrent to delivery.[25]

To this it may be replied that the dealers using the futures market customarily class out cotton into even-running or contiguous-grade lots in order to dispose of it in the spot market, so that the alleged increased expense of delivery on such contracts in the futures market is problematical.

Restriction of trading.—It is also claimed that the contiguous-grade contract would, by limiting the option of the seller, restrict

[23] Report of the Commissioner of Corporations on Cotton Exchanges, pt. 3, pp. 184–187.

[24] A suggestion madeby J. C. Hill in 1914, at the House hearings on the Lever bill, was to adopt a "contract to call for an even-running delivery of 100 bales of any one grade. (However, a mixed delivery could be made, the seller paying the receiver a penalty of 50 cents per bale, provided not more than half a grade above or below any one fixed grade, or a penalty of $1 per bale if delivery contains a variety of grades more than one-half grade away from any one fixed grade.)" (Statement of J. W. Hill before House Committee on Agriculture, regulation of cotton exchanges, 63d Cong., 2d sess., p. 134.)

Such a contract would not prohibit or prevent the delivery of overs, while, if this type of provision were combined with a reduction in the size of the contract, doubt may be expressed as to whether the small shipper would suffer appreciably more from the adoption of even-running or contiguous-grade contracts than would the larger ones. How large any such penalty should be is a question of detail that need not be discussed at this point. It is evident, however, that it should, if possible, be large enough to encourage deliveries of the standard, whether even-running or contiguous-grade, yet not so severe as to work too great a hardship on merchants, particularly the smaller ones who might not have the necessary quantities of contiguous or even-running grades. The only point that it is sought to make is that adjustments of this character would presumably obviate much of the difficulty of the small dealer who has sold contracts and who for one reason or another finds that it is either necessary or desirable to deliver.

[25] A New Orleans merchant at the time of the inquiry of the bureau of corporations said on this point: "I think that an average grade contract restricting deliveries to say one and a half grades either way, or even to three full grades adjacent to each other * * * would handicap sellers. I have delivered in the last few days over 600 bales of cotton. If it had been necessary for me to class out the cotton into two or three average grade lots only, the expense of doing so would have acted as a detriment to delivery."

the volume of trading. This would tend to render the market narrower and more susceptible of manipulation thus making it less satisfactory for the purpose of hedging. But contract deliveries of cotton of contiguous grades constitute comparatively merchantable lots. The restriction imposed on the seller by such a form of contract, therefore, improves the merchantability of the delivery as the various other proposed changes in deliverable grades do not. This, therefore, may be regarded as a factor tending to broaden the futures market by increasing the number of buyers and the volume of buying. Even if this is not correct it would seem possible, though not necessarily desirable, to offset in part any such tendency to narrow the market by increasing the range of grades deliverable on contract. (For objections to increases in deliverable grades see sec. 6.) Finally, if southern delivery were adopted the new option given thereby to the seller as to the place of delivery would in large manner counterbalance the limitation of the option as to the grades deliverable arising from the contiguous-grade contract. This matter is discussed in section 12.

Section 9. Difficulty of classification under contiguous-grade contracts.

Not the least important objection to contiguous-grade contracts is the difficulty of classification. The absence of any mechanical means of grading cotton renders classification dependent in the main upon the personal judgment of the individual classers who, of course, differ widely in skill and experience. "No two men," remarked a Mobile dealer to a representative of the Bureau of Corporations, "class cotton alike. I have been in the business 34 years and it has been my observation that even among the best experts three men out of five will class it differently." The Bureau of Corporation's report on cotton exchanges made the following statement regarding this matter:

> Again, conditions of light and weather, which appear trivial in themselves, may influence a classer materially. It is no uncommon occurrence for the same classer, examining the same lot of cotton at different times and under slightly different conditions, to render different awards.[26]

The foregoing statements are practically as true to-day as they were formerly.

At the cotton conference in November, 1923, called by the Federal Trade Commission, the following statement was made on this point by W. L. Clayton:

> Our classer might class it 500 middling and 500 strict low, and ship it to New Orleans, where the Government classers are, and it might be 10 different grades. I do not mean to imply that the Government classers are inaccurate, or that they do not class correctly. I simply mean that * * * the cotton submitted to two different classers—there may be a great variation in it. So that you might believe that you had shipped cotton which would fill the contract, and then when it gets there you have not.[27]

On account of these difficulties in accurately classing cotton it is contended that a dealer attempting in entire good faith to deliver cotton of contiguous grades might find all or a large proportion of his shipment rejected for failure to grade. And this would not occur through any unwillingness or lack of desire on the part of the seller to fill his contract but would be attributable solely to difference in individual judgment as to the grade of the cotton in question.

[26] Cotton Exchange Report, op. cit., pt. 2, p. 33.

[27] Hearings, Pt. II, p. 294.

If, therefore, a dealer desired to tender cotton in New York or New Orleans it might be necessary for him to ship a surplus in order to be sure of having 100 bales of contiguous grades.[28] That this would be desirable no one would contend.

In this connection, it appears that the alleged difficulties of the dealers in making deliveries under these contracts might be considerably decreased by the reduction of the size of the contract from 100 bales to 50 bales, or perhaps an even smaller number, as has been suggested in a previous section. (Sec. 8, and see also Chap. V, sec. 11.) This would render it possible for the dealer to get a larger proportion of his cotton into contiguous-grade lots.

Section 10. Spinners' use of contiguous-grade contracts.

In some cases contiguous-grade contracts have been urged on the ground that they would enable the manufacturer to take up cotton on contract. The purchases of the spinner are usually in even-running or contiguous-grade lots, and in consequence it has been argued that if contracts of the latter character were employed, spinners would actually take up the cotton on such contracts.

The Bureau of Corporations arrived at the conclusion that this contention was not well founded, "since the seller would still have the option of selecting the particular range of grades for each delivery, it is urged, and with force, that the buyer could have no assurance that he would obtain the grades which he desired."[29] Even less, it may be added, would he be likely to obtain the particular character and quality of staple which he desired.

Broadly speaking, this view is no doubt correct and it is very likely a sheer impossibility to devise a basis contract under which the spinners will be able to obtain any very large proportion of their cotton by taking delivery on future contracts. On the other hand, it appears possible that there would be some tendency for mills to take up cotton on contract if they knew that the cotton would be of three contiguous grades. This point of view is apparently implied in the letter addressed to the superintendent of the New York Cotton Exchange in 1906 from the secretary of the American Cotton Manufacturers' Association, inclosing a copy of resolutions adopted by the association. These resolutions included the following relative to changes in the grades of cotton deliverable on contract:

> Cotton to be of any grade from low middling to fair inclusive, and if tinged or stained, not below low middling (fair color) in value. * * *
>
> No certificate of classification to embrace qualities more than four quarter grades above or below the mean grade of the cotton covered in such certificate.[30]

The letter referred to reads in part as follows:

> The resolution was unanimously recommended by the Association as a means of making contracts on your Exchange work to better advantage as hedges for

[28] It may be observed that any such operation would necessarily result in the creation of overs which could not be delivered on contract unless combined with other lots.

[29] Cotton Exchange Report, op. cit., pt. 3, p. 179. A New Orleans merchant, discussing this situation at that time, stated that "It would really be of little benefit to a spinner if the delivery of one contract was restricted to three grades, by which I understand cotton averaging not more than a half grade up or down, or not more than a full grade up or down, for the reason that he might receive average low middling when he could not spin anything below average strict middling; therefore, he would have to resell the entire contract of average low middling on the spot. * * * What good is it going to do a mill that uses average strict middling and uses nothing below middling to get a contract that runs low middling, nothing below good ordinary? The fact that he can resell it at a slightly better premium is going to be more than offset by the fact that he has got to pay a higher price for it."

[30] Resolutions adopted May 17, 1906, at the Fourth Annual Convention of American Cotton Manufacturers' Association.

mills against sale of goods, i. e., as you well understand, a mill can not, under ordinary conditions, and seldom under extraordinary conditions, use 21 grades now allowable for delivery on contract. The mills prefer even running grades, or very nearly so. For instance, in buying average strict middling they receive according to New York grades; good middling, barely good middling, strict middling, full middling, and middling, this being two quarter grades above and two quarter grades below the mean grade, which is strict middling. The same applies in any other average grade, although the trade as a rule does not now consider the "barely's" and "fully's," but only work on the whole and half grades. You will therefore realize and appreciate the grounds for the position taken by manufacturers in requesting the exchanges to, if possible, arrange so that they may buy contracts on the Exchanges and have the cotton delivered on the contracts, thereby be able to secure *to a certain extent*[31] such cotton as they may want, and may be able to use.

Section 11. Advantages to merchants of contiguous-grade deliveries.

Increased merchantability.—At the time of the inquiry of the Bureau of Corporations into cotton exchanges a prominent New Orleans cotton factor made the following statement:

The party delivering should be compelled to specify, at the time he issues his notice, the grade of cotton he proposes to tender, and should not be permitted to deliver anything more than one-half grade above or below, leaving him, of course, the right to tender any one of the various grades now specified by both the New York and New Orleans Exchanges. In other words, if a contract calls for 100 bales of middling cotton nothing should be below Strict Low Middling or above Strict Middling. The effect of this notice to the receiver as to what is to be tendered to him would mean that if a mill were tendered 100 bales of Good Ordinary cotton, and could not use it, they would have no trouble to place it with some mill or party that was able to use that particular grade. It would apply equally as well to the receiver of cotton, because, knowing about what he was to receive he would have no trouble in hedging, or selling it, without being compelled to retender it on the New York or New Orleans market. * * * The intent of delivery on contract is to make a contract which shall be equally fair to the receiver as well as to the deliverer; and that intent can only be realized by having the receiver obtain fair treatment, and getting 100 bales of cotton that he shall be able to dispose of at least to some spinner.

In fact, it appears to have been quite generally conceded by the various parties interviewed in connection with the inquiry of the Bureau of Corporations, that a future contract providing for even-running deliveries[32] would be advantageous to buyers even though of some disadvantage to sellers. This appears from the following statement quoted from the report of the bureau:

Although the advantage to the spinner of such a restriction upon contract deliveries was regarded as problematical, it was generally admitted that even-running deliveries[32] would be extremely desirable in the case of cotton merchants.

In the first place it was pointed out that "Since the ordinary merchant has among his customers numerous spinners of widely varying needs, * * * even-running deliveries would greatly facilitate the business of cotton merchants, in that they would tend to reduce the labor of sorting and segregating mixed deliveries into even-running grades."[33]

Any cotton with a variation of not more than a half grade is a merchantable lot and hence is susceptible of sale as spot cotton without reclassing as well as retenderable on contract. As a Texas merchant well remarks:

If you limit the number of grades which can be tendered on any 100-bale contract, you are forcing a merchandising contract—one which can be utilized by a cotton merchant with very little additional expense.

[31] Italics, the commission's.
[32] Even running deliveries referred to in the bureau's report are in reality contiguous grade contracts.
[33] Cotton Exchange Report, op. cit., pt. 3, p. 183.

At the present time each lot delivered may be composed of miscellaneous grades which can not be resold to the best advantage as spot cotton on account of this variety. The chief outlet for such cotton, therefore, without reassembling, is to retender it on the futures market. If the buyer takes up large quantities on contract it is, of course, quite possible to re-sort and reassemble the cotton into even-running or contiguous-grade lots and then resell it as spot cotton.

Relative advantages to small dealers.—The practicability of doing this is already much greater in the case of the larger dealers than in the case of the smaller. Obviously the possibilities of classing out cotton in this fashion are much greater in the case of a receiver taking up from 2,000 to 5,000 bales of cotton than in the case of one taking up from 200 to 500 bales. The latter runs a good chance that none of the cotton taken up by him will class into sufficiently uniform grades to constitute a lot which any mill can spin and for which there is, in consequence, a ready market. In this case, therefore, the receiver must find sufficient cotton to make up contiguous-grade lots or else retender. In the case of the large receiver of cotton, however, the quantity received is so great relative to the comparatively limited number of tenderable grades that the great bulk, if not all, of it can be classed out into definite marks, either even running or contiguous grades. In connection with the above the following excerpt from the report of the Federal Trade Commission's cotton conference is pertinent:

Question. Is it not true that a contract of that character [even running or contiguous grade] received by a buyer would be a more merchantable kind of contract than would the present delivery, which might be 10 bales of every one of the 10 deliverable grades?

Mr. Clayton. If you had only 100 bales to receive it certainly would. If you had 500 bales to receive, it would be in a much less degree. If you had 1,000 bales to receive it would not make any difference.[34]

Moreover, even if this were not the case, the large receiver of cotton on contract may possess at present a considerable advantage over the smaller if he has a stock of spot cotton in the contract market, since his contract receipts can be more readily combined with his spot cotton stocks into contiguous-grade lots for sale in the spot market.

Under present conditions, therefore, it would seem that the larger spot merchants possess a greater advantage over the smaller in taking up cotton on contract than would be the case if contiguous-grade lots were required to be delivered. The relatively greater merchantability of the latter should, it would appear, enable smaller dealers to take up cotton on contract and resell it in the spot market to advantage. In consequence it is to be expected that contracts would be purchased to a greater extent for the purpose of obtaining cotton, particularly by the smaller dealers. If greater merchantability will induce dealers to take cotton on contract more readily there will be less tendency to run from the delivery notices.

Relation to competition.—The effect on competition of this increased merchantability of the deliveries should not be overlooked. As has been elsewhere observed in this report, 35 to 60 per cent of the entire cotton crop of the United Staets is handled by less than 25 large spot merchants. The desirability of this situation is at least open

[34] Hearings, Pt. II, pp. 478-479.

to question and it seems possible that the development of a more merchantable contract such as would be afforded by contiguous-grade deliveries might have the effect of introducing an added element of competition into the business by enabling the smaller and less highly organized dealers and merchants to obtain a larger volume of merchantable cotton than it is now possible for them to obtain. Such a result might be facilitated by providing in contracts that storage should not begin to run against the receiver until a few days, say five, after the delivery of the receipts. This would, of course, involve a somewhat higher price for the contract, but would have the advantage of allowing the receiver a few days in which to decide what he should do with the cotton received on futures. It may be doubted whether the increase in price of the contract resulting from such a provision would be sufficient to constitute a serious objection to such a plan. In connection with southern warehouse delivery, such an arrangement might be particularly desirable in order to render the contract more acceptable to a buyer who might be inclined to take delivery but who did not have branch offices at every delivery point.

Notice of grades tendered.—In any case it would appear desirable that the notice of delivery should specify the grade or grades to be delivered, thus giving the buyer five days in which to decide what he will do with the grades in question. The common objection to specifying the grades to be delivered is that the cotton which the seller expects to tender has not yet arrived or has not yet been certificated, and that in consequence the seller does not know what certification will show. Another objection is that between the time of the issuance of the notice and the delivery date the seller has a customer for the cotton specified in the delivery notice and wishes to substitute other cotton.

The report of the Bureau of Corporations recommended that delivery notice should specify the deliverable grades and this recommendation seems deserving of indorsement. In regard to this proposal and the objections thereto the bureau concluded:

> The suggestion in question seems eminently fair. The occasional inconvenience to which the seller might be put seems altogether unimportant as compared with the constant inconvenience to which the buyer is subjected, owing to his complete ignorance of the kind of cotton he is to receive. By the time the seller issues his notice to the buyer he should be prepared to supply a certain grade or certain grades of cotton; and while it might happen that in the few days pending the actual delivery he could make better disposition of his cotton in the spot market, this is a minor consideration.[35]

It is presumably unnecessary to add that if southern delivery is adopted the delivery notice for each contract should state not only the grade or grades but also the delivery point at which the cotton will be tendered.

Section 12. Relation of contiguous-grade contracts to hedging.

Results of increased merchantability.—From the foregoing discussion it would appear that contiguous-grade contracts would increase the merchantability of the delivery. If this view is correct, this form of contract would be a means of improving the hedging facilities of the cotton futures market. Such a change should in the first place tend to render the contract delivery of a character more like the

[35] Cotton Exchange Report, op. cit., pt. 3, p. 206.

delivery made by merchants on spot sales, which results should tend to establish a more stable relationship between the spot and the futures markets and render it easier for the hedgers to get in and out of the market without loss.

Effect on discounts and squeezes.—On the other hand, a contiguous-grade contract can not be expected to check or to diminish squeezes of the near positions. Neither can this change go very far in checking the discounts of the distant months under the nears, nor decrease the discounts of futures under spots. The lack of any carrying charge premiums on the nearer options over spots no doubt has some tendency to increase the discount of the distant options under the near positions, since the discounts of the nears under the spots will cause the seller of hedges to place them in the distant rather than the near months.

Much more important, however, in producing the discounts of the distants under the nears are the frequent squeezes of the latter positions which are responsible for hedge sellers always going into the more distant months, thus creating a heavy pressure of selling hedges in the distants while little of such pressure is exerted in the nears. It might seem, as has been suggested, that a contiguous-grade contract would induce a sufficient volume of buying of the nearer positions by persons intending to take delivery as to induce a closer relationship between the spots and futures which would render it theoretically more practicable to sell hedges in the nears rather than in the distants.

To adopt either an even-running or contiguous-grade contract, however, undoubtedly means a restriction upon the options of the seller as to the grades to be delivered. It appears generally to be conceded that the necessary effect of the adoption of this form of contract is to increase the price of futures relative to spots, or, to put it another way, to decrease discounts of futures under spots. This proposal necessarily restricts the option of the seller as to delivery since it eliminates the possibility of the delivery of miscellaneous lots on any one contract.

At the Trade Commission's cotton conference, W. L. Clayton, one of the New York Cotton Exchange representatives, made the following statement with reference to the increase in value under the contiguous grade contract as compared with the present contract:

> Question. You do not think that the contiguous grade contract would elevate the future more than a very few points, do you?
>
> Mr. CLAYTON. I think it would vary with conditions. At times it would be 15 or 20 points, probably.
>
> Question. It probably would not run as high as 50 under any conditions, would it?
>
> Mr. CLAYTON. I don't think so.[36]

This form of contract would render delivery more difficult, and, taken alone, therefore, may be criticized as simply lending itself to the manipulation of the market by way of squeezes in the near options, thereby tending to accentuate the discounts of the distants under the nears at least in so far as the fear of squeezes of the near positions tends to produce hedging pressure on the distant months. To this the relatively higher value of the contract, as compared with spot, can not be regarded as an offset, since with increased squeeze

[36] Hearings, Pt. II, p. 480.

operations the stability of the spot future spread might be even less well maintained than it is at present.

Relation to southern deliveries.—These criticisms are largely avoided if the even-running or contiguous-grade proposition is combined with southern warehouse delivery. Whether without the latter these changes in the grades deliverable on contract would improve the hedging facilities of the New York future market is open to grave question in view of the apparently increased possibilities of squeezes which any such form of contract would afford. At least it may be accepted that the adoption of a contiguous-grade contract is very much more open to question if southern warehouse delivery is not adopted than if it is.

The reason lies in the fact that the theory of southern warehouse delivery is, at least in part, that it will tend to reduce the possibilities of squeezes by facilitating delivery. As indicated elsewhere (chaps. 8 and 9), a system of southern deliveries should, by reducing the possibilities in this direction, also reduce the tendency of the distant positions to go to a discount under the nears. If selling hedgers no longer fear a squeeze in the delivery month it is logical to assume that the month sold will conform more nearly to the expected time of sale of the spot cotton. Selling hedges, therefore, instead of being placed almost solely in the distant positions will be more evenly distributed throughout the year in accordance with the sales of spot cotton made by the hedger, and considerable selling pressure on the distants will thus be removed. This in turn should tend to create premiums on the fars as compared with the nears in accordance with the carrying charge theory. To such a possible development the even-running or contiguous-grade contract should be a valuable supplement.

Relation to southern delivery differentials.—If southern warehouse delivery were adopted, the tendency of such a system would be to reduce the value of the contract by reason of the fact that the seller is given an option as to the place of delivery in addition to the two options already possessed by him as to the grades to be delivered and as to the time of delivery within the delivery month. In consequence the adoption of a contiguous-grade contract would tend in a measure to prevent both the reduction in the value of the contract and the increase in the spot future spread (discount), which might accompany the adoption of southern delivery.

Another question that must be settled in connection with southern delivery is as to whether or no the deliveries at southern points shall be made at a differential under New York. The New York future price theoretically represents the value of cotton at southern points plus the cost of getting it to New York. If, therefore, delivery is to be made at southern points without any differential it is obvious that the price of the New York future will tend to be lower than it is under the present system by approximately the amount of the freight and handling charges involved in the making of delivery at New York City, in addition to any reduction in value resulting from the additional option of the seller as to place of delivery. Under such conditions it would appear more desirable that a contiguous-grade contract should be employed than if deliveries in the South are made at a differential either arbitratry or equivalent to the amount of the freight and handling charges, since the reduction of the value of the contract would be greater without the differential.

Moreover, the establishment of fair differentials for delivery involves some complications in their proper adjustment, complications which would be increased if many delivery points were used and, also, if interior as well as port points were employed. How far contiguous-grade contracts would offset the reduction in the value of the contract resulting from the avoidance of freight and handling charges at New York on delivery, is a question which might be considered in this connection.

An objection to the use of the contiguous-grade contract as a substitute for a differential is that it would not increase the future contract price sufficiently to more than partially compensate the decline in value of the New York contract price if southern delivery without differentials is employed.

Possible bear manipulation under southern delivery.—Another reason for the adoption of a contiguous-grade delivery as a part of a system of southern delivery has to do with the possibilities of bear manipulation and the effect of southern delivery on the small dealer. As already stated, one of the principal complaints against the form of contract in use prior to the passage of the United States cotton futures act was the mixture of grades delivered on a single contract delivery. Regarding this matter the Bureau of Corporations said:

> It appears reasonably certain that the privilege of tendering a miscellaneous assortment of grades in the New York market has at times been abused by individual deliverers. Such abuses are not confined to the New York market, although they appear to have occurred with special frequency there * * *. Whenever an active market campaign is in progress, feeling between the two factions in the market is likely to be more or less acute, and at such times the seller who is compelled to provide cotton in satisfaction of his contract may be disposed to "get even" with the buyer by making the tender unnecessarily objectionable. * * * Tenders are ordinarily so mixed as to be objectionable. The opportunity is clearly open for abuse of this privilege in either the New York or the New Orleans market.[37]

Southern warehouse delivery necessarily raises this question in acute form since, by distributing the deliveries among various points, large speculators would be able to deliver hundreds of bales without the receiver being able to class out more than a small proportion into 100-bale merchantable lots; i. e., even-running or contiguous-grade of 100 bales or more. For example, with 10 deliverable grades and 5 delivery points but without a contiguous-grade contract, a large merchant could deliver more than a thousand bales of cotton to a single receiver without that receiver being able at any one point to class out 100 bales of 3 contiguous grades.

If there are several receivers a seller could unquestionably under a southern warehouse system deliver very large quantities of cotton in decidedly unmerchantable lots. To the larger merchants this might not be a very serious matter. It is possible that some of such dealers will have stocks at most of the delivery points and will, therefore, be able, regardless of the character of the delivery, to recombine it with their own stocks. With the smaller merchant, however, the case is otherwise. He will not have a stock at most points, perhaps even at none. It is highly important to him, therefore, that the cotton he obtains on delivery shall be as nearly a merchantable lot as possible. It may well be argued that for the protection of the smaller merchants under southern delivery a

[37] Cotton Exchange Report, op. cit., pt. 3, pp. 156-157.

contiguous-grade contract is necessary. The following statement of one of the smaller merchants in the South Atlantic States is of interest in this connection:

If the three contiguous-grades contract is put into effect the results will be highly desirable. Such a contract would be easy to fill—not as easy as the present contract of course, but sufficiently so to be practicable. It is a contract that is practically a mark, so much so that it can be easily sold to a mill or for export. Such a contract would be necessary under the southern warehouse delivery system, because it would result in a merchantable contract being delivered at each point. Under the present contract, we would be put to considerable trouble and expense if we were tendered 100 B/C at, say, some Texas point, where we have no office and do not carry a stock if this 100 bales of cotton consisted of all ten grades now deliverable. Under the three contiguous-grades contract we could ship this 100 B/C to some mill or merchant. The three contiguous-grades contract would be sufficiently valuable to make sellers ask higher prices and to warrant buyers paying better prices and consequently the discounts would at least tend to be less than at present—though this is a debatable point.

It would, moreover, seem important for the protection of the smaller merchant that too large a number of southern delivery points should not be adopted even with the contiguous-grade contract. Under southern delivery the ability of the large dealers to manipulate the futures market by exploiting deliveries should be lessened if a more merchantable delivery consisting of contiguous grades is employed than if the present contract is left in effect. Also the small merchants will be in a better position to accept deliveries. While the requirement of the delivery in contiguous-grade lots may, therefore, be regarded as in the nature of a partial offset to the alleged advantages of the larger merchants under southern certification and delivery, this offset may in part be counteracted if too many delivery points are adopted.

In fact, one of the most frequently occurring objections to southern delivery is the possibilities of bear manipulation. The following statement is fairly typical:

I can not see any benefit to be derived from having deliveries at southern points, and on the contrary I can see possibly a great deal of disaster in store for the producer or farmer. It would mean that large interests in the cotton business * * * would own or control compresses at the points and would hold a club of a large amount of cotton ready to tender on a moment's notice on contracts, and the mere fact that it was simply possible to give 200,000 or 300,000 bales of cotton would be sufficient influence to scare everybody out of the contracts.[38]

If it can be assumed that any such result is to be anticipated from southern delivery, a fact by no means admitted by most dealers, it seems probable that a contiguous grade contract would serve to some extent to check any such effect through the fact that buyers would more readily be found if the cotton to be delivered was in contiguous-grade lots.

Section 13. Other proposals for revision of deliverable grades.

Various proposals have been made looking to increasing the value of the contract. It has been proposed that the buyer should be allowed to call the grade on one-half of the contract. Other suggestions which have been made are that the seller should be allowed to deliver not more than two, or not more than three, or not more than

[38] Hearings, Pt. II, p. 299.

four different grades on any one contract. Another proposal is that the cotton deliverable should average out to middling; that is to say, that the buyer could deliver any grades that he desired but that the proportion of the grades above and below middling should be so distributed that the average of the lot would be equivalent to middling, though perhaps not a bale in the entire delivery was actually middling cotton. Still another proposal has been that no more than certain proportions of the bales on contract should be of certain lower grades.

In May, 1920, Senator Comer, of Alabama, introduced an amendment to the Agricultural appropriation bill (S. 4415) which read as follows:

Be it enacted, etc., That subdivision 3 of section 5 of the United States cotton futures act, approved August 11, 1916, be amended by adding at the end thereof the following:

"*Provided,* That in case of contracts made thirty days after the enactment of this amendatory act, in which the parties have not specified the basis grades, at least one-half of each lot of cotton tendered for delivery under such contract shall be of standard grade of middling or above and each hundred bale lot tendered for delivery under such contract shall consist of not more than four different standard grades and not less than twenty-five bales of each of such grade."

To all of these proposals a number of objections may be raised. In the first place, it is not apparent that any of them will render it more practicable for the spinner to obtain cotton on contract. Secondly, there is no reason for assuming that contracts such as the foregoing will appreciably improve the merchantability of the contract lot received on contract. Thirdly, although it may probably be assumed that any one of them will tend to increase the value of the contract, it does not necessarily follow that they will improve the hedging facilities, which improvement is presumably the thing to be desired. If the buyer is to be permitted to select one-half the grades on the contract, it seems probable that the market would tend to become even more narrow than when specific grades contracts are employed. In the case of the sale of the latter type of contract the seller at least knows what he is obligated to deliver, whereas in the former it is absolutely impossible to forecast what the buyer will demand on his half of the contract. A leading spot merchant says:

The range of grades accepted by my firm, for instance, covers 21 separate qualities, or more than twice as many as the future contract carries. During the present cotton season my firm has bought well over half a million bales in the interior, and certainly over 90 per cent of that cotton was bought "basis middling," giving to the seller the right to make delivery from 21 different grades.

Due to the lack of demand, we have this season used the future markets for "hedging" our purchases to a greater extent than ever before. Does it not stand to reason if we buy actual cotton, giving the seller the right to choose from 21 grades in making his deliveries, we can not very well hedge it with a contract giving the buyer the right to name the grades for half the quantity?

The risk and uncertainty would no doubt force the price of such contracts to a relatively high figure, since sellers would tend to demand heavy premium for the risk involved. Moreover, it may well be doubted that any but a large firm buying a great variety of grades of cotton would be able or willing to sell this kind of a contract. It seems, therefore, entirely safe to conclude that the adoption of any such form of contract would render the hedge less satisfactory rather than improve the situation in this regard.

Similar objections may be made to the other suggested forms of contract though perhaps in a less degree. If the thing to be desired

is merely an increase in the value of the contract through limitations in the option of the seller, any one of them might be advantageous. One thing that is sought, however, is a means of improving the hedging facilities of the futures market by securing a more stable relationship between spots and futures. While there appears to be some possibility that this may be brought about by means of a more merchantable delivery, it seems exceedingly doubtful that it can be effected through arbitrary changes in the deliverable grades which tend to restrict the volume of trading.

Section 14. Conclusion.

A careful study of the various proposals which have been made for changes in the grades of cotton deliverable on future contracts leads to the conclusion that the only change relating to grades that promises an improvement in the present system of cotton future trading is the contiguous-grade contract.

Contiguous-grade deliveries constitute more merchantable lots of cotton than do present deliveries. They conform substantially to the manner in which spot cotton is handled by merchants in their sales to mills. The adoption of such a requirement should, by increasing the merchantability of the contract delivery, exercise a favorable influence on the spot-future spread. Such a revision, however, is not recommended unless combined with a system of southern warehouse deliveries.

As pointed out in detail in connection with the discussion of the various revision proposals, it is practically impossible, so long as no other changes in the contract are made, further to restrict the option of the seller with references to deliverable grades without increasing the possibilities of manipulation and rendering present hedging facilities even less satisfactory than they now are. This would appear to apply to contiguous-grade contracts as well as to other suggested restrictions of the grades deliverable on contract. Unless, therefore, some means are adopted to reduce the possibilities of manipulation in the futures market it would not appear to be wise to adopt the contiguous grade requirement for deliveries on futures.

If southern warehouse delivery is adopted, this objection falls. The contiguous-grade contract should be adopted as part of the southern warehouse delivery system, as an offset to the additional option of the seller as to the place of delivery and in order that the dealer taking delivery will receive a merchantable lot of cotton though at a point which may not be most satisfactory to him.

Chapter VIII

PROPOSED SOUTHERN DELIVERIES ON NEW YORK CONTRACTS

Section 1. Introduction.

History of proposal.—For over 20 years the question of southern warehouse deliveries has been before the cotton trade. The usual form of the proposal is, briefly, that with respect to future contracts made in the New York market the delivery of the cotton may be made at specified southern markets, or at New York, at the option of the seller. Thus, a seller of a New York contract for January delivery would have the option of delivering 100 bales of cotton, under certain restrictions, of course, at any one of several specified markets in the South or at New York.[1] Plans or proposals to this effect are also called "outside deliveries" or "southern certification."

Every few years this question, in some form or other, has been brought up, studied and discussed, but never settled. Most of the discussion on the subject has been concerned with the application of the plan to the New York market, since it is the one most frequently alleged to be in need of this or some other plan. It is believed, however, by most of those in favor of the plan that the same system should be applied to New Orleans. The consideration of this subject herein is directed primarily to delivery on New York contracts.

In 1903 a special committee was appointed by the New York Cotton Exchange to study the possibilities of extending the New York warehousing and certificating system to southern markets. This committee made several reports, the first in May, 1903. All of the reports issued by this committee were favorable to the plan and strongly urged its adoption. Apparently the results of this committee's work, extending over a number of years, were never submitted to the membership for final action.

As nearly as can be ascertained at this late date the proposal was dropped chiefly because of fear of changing the established order of things and because of lack of confidence in the reliability of southern cotton-warehouse receipts. In addition, there were some difficulties in connection with the inspection and classification of cotton. The classification difficulty no longer exists. The reasons for advocating southern certification at this time were much the same as those prevailing today, except that in 1903 and thereabouts it was more generally thought that the plan would result in New York once more becoming a large spot market. It should not be understood that the trade as a whole was in favor of southern warehouse deliveries at this time, 1903–1907. Then, as now, many cotton merchants opposed the plan, and many members of both the futures exchanges apparently continue to be strongly opposed to the suggested change.

[1] It should be understood that the plans do not contemplate that deliveries of one contract lot of 100 bales may be made at more than one market.

In the past decade several attempts have been made to revive interest in the southern warehouse delivery system. In 1922 the directors of the Dallas Cotton Exchange sent a petition or memorial to several members of Congress and to 10 cotton exchanges urging the adoption of some system of southern warehouse deliveries, the petition stating, in part, that—

> the opportunity is offered any firm or group of firms, who are strong enough financially, to bring about an unnatural and unwarranted price on one particular option, as compared with the selling value of cotton in any of the other markets of the world, to the detriment and loss of the legitimate trade who have sold or purchased said option against spot cotton in the South, and without adding one point to the value of the rest of the crop as a whole.

Present status of proposal.—In the early summer of 1923 the New York Cotton Exchange, in response to numerous complaints from spinners and merchants, appointed a special committee [2] to ascertain some means of overcoming the faults of the New York cotton market. The chief burden of these complaints was that the New York futures market was frequently manipulated and that it did not, in consequence, furnish a satisfactory hedge. (See also Chap. III, pp. 80–81 and 83.)

This special committee decided to study the possibilities of southern warehouse deliveries first, because the members of the committee felt that this proposal had more possibilities for securing the desired results than any other scheme. After some months the committee had not finished its work but it had decided tentatively that some form of southern warehouse deliveries was necessary and would do much to overcome the features of the New York cotton market concerning which there had been so much complaint.

During the course of the field work on the cotton inquiry in the spring and summer of 1923, the commission's agents found that sentiment among the southern merchants, New Orleans excepted, was strongly in favor of southern warehouse deliveries on New York contracts. For example, of 15 firms at Norfolk interviewed on the question of southern warehouse deliveries, 11 firms were in favor of the proposal, 2 firms were opposed, while 2 firms would not express an opinion because of not having considered the matter. The New Orleans interviews show a reverse position, though not so strongly opposed to the plan as the Norfolk merchants were in favor of it. The cotton cooperative marketing associations generally are quite strongly in favor of southern deliveries. Of all those interviewed in the South, over 60 per cent were in favor of southern deliveries. The rest either were opposed or did not feel competent to express an opinion.

It should be said that many of those who stated that they favored the adoption of southern warehouse deliveries did so apparently without having given the matter much thought. Furthermore, some of these took this position because they believed the plan would help their own market, and consequently, themselves. On the other hand, many of those against the plan had given it very little thought and quite a few were opposed merely because they feared a change as such, while some were opposed for purely selfish reasons.

The question of southern warehouse deliveries is so important that it was included in the list of matters to be discussed at the

[2] This committee consisted of seven members of the exchange, spinners, warehousemen, merchants, and future brokers being represented. It is of interest and of importance that this committee is regarded as one of the strongest ever appointed by the exchange for any purpose.

cotton conference held by the commission early in November, 1923. The conference lasted three days and much of the time was devoted to a discussion by the trade of the arguments for and against southern warehouse deliveries.

Section 2. Reasons advanced by the trade for southern deliveries.

Those in favor of southern warehouse deliveries had numerous reasons for their support of the plan, the more important being set forth below.

As a means of checking manipulation.—It is quite generally held by those in favor of southern warehouse deliveries that New York future prices frequently are manipulated. This manipulation has been manifested, as a rule, by a squeeze of the near position (or near option). It was charged by many that powerful traders forced unnatural price situations on the trade to their own profit and to the injury or loss of the smaller spot-cotton merchants. The names of certain spot-cotton merchants were often given as being responsible for these squeezes. It is desired to emphasize that this feeling that the New York futures market has been frequently manipulated is widespread throughout the cotton trade in the South, and also was held by many New York merchants. Some merchants who oppose southern deliveries also hold this view, but do not believe the plan would remedy matters.

That the New York market has been frequently manipulated seems to be well established, according to the trade; and certainly price movements have been very unsatisfactory to hedgers on many occasions. No doubt there are times when the price situation is such that manipulation appears to be, but is not, responsible. At any rate, conditions in the New York futures market frequently are in such a state that placing or transferring hedges is more or less of a gamble.

The parties commonly alleged to be the manipulators were interviewed. Two of these merchants maintained that the trouble has occurred because New York future prices did not properly reflect the value of the actual cotton, and not because of manipulation. It was stated, however, by one of these merchants that it was necessary at times for him to carry on operations "which had the appearance of manipulation" in order to protect his own hedges. The stock of cotton at New York is very small at times.[3] This, the merchant maintained, is dangerous to him because he has sold contracts upon which he may have to deliver. Consequently he would buy considerable quantities of a nearer position than the one in which he had placed his short hedges and would sell an equal quantity of a more distant month against these futures purchased. This purchasing of the near would tend to cause the position purchased to go up, and the sale of a more distant month as protection for the contracts purchased would tend to depress the month sold.

As delivery time on the month purchased approached, some of those who had sold the contracts began to buy them in. Others shipped cotton to New York to be delivered. The holder of the near option wanted cotton to come to New York and, consequently, kept

[3] At one time in October, 1923, the certificated stock of cotton in New York was 92 bales.

the price of the option up in an attempt to force the seller to deliver. In other words, he made it more expensive to the sellers of the contracts to buy in their contracts than to deliver the cotton. Such operations have the effect of causing the near month to be at an undue or unwarranted premium over the more distant months. Those merchants who have short hedges in the near months must transfer at a discount if they do not deliver. It is this situation concerning which there is so much complaint.

The merchant who made the above statement asserted that there was one important factor in connection with these so-called squeezes which is generally overlooked. It was asserted by this merchant that the price of the near month on such a so-called squeeze as is described above did not exceed the value of spot cotton generally in the South, to say nothing of the value landed at New York.

Summed up, the above operations result in the holder of the near option obtaining a stock of cotton at New York, which protects his short hedges, and which is also cheap cotton, because he did not himself have to bring it to New York and put it on contract. But, incidentally, a number of merchants have been forced to transfer their hedges at a loss or to deliver relatively high-priced cotton on a relatively low-priced contract; and a few merchants, chiefly because they were fortunate enough to be located near New York, have profited by the squeeze because of their ability to get cotton to New York and on contract in the last few days of the delivery month. In this connection it should be stated that several firms at Norfolk, Va., are alleged to exist only by reason of profits derived from their ability to deliver cotton at the last moment on squeezes of the New York market.

The question of whether the firm conducting operations as described above did so as a protection to its hedges or for manipulative purposes is not a controlling factor. The things to be considered are the fact that such operations can be successfully conducted by firms or by individuals and the effect of such operations upon the cotton trade.

The strongest argument for the futures market advanced by its advocates is that it furnishes a satisfactory hedge for cotton merchants. To do this prices should not be susceptible of being influenced unduly by the operations of any firm or individual. It is clear, however, that the New York market can be and is unduly influenced by the operations of firms or individuals, and a great many cotton merchants allege that they are injured thereby. Spinners make similar and equally emphatic complaints.

It is asserted by the advocates of southern deliveries that this plan will not only make it impossible, or nearly so, to manipulate the futures market but will also render it unnecessary for anyone to conduct an operation which appears to be manipulation but which, it is claimed, is conducted for the purpose of protecting hedges. Under southern deliveries it would be so easy to tender large quantities of cotton that any attempt to squeeze a position would be most unprofitable.

To restore New York as a cotton market.—Another reason for advocating southern warehouse deliveries on New York contracts, advanced by some few members of the New York Cotton Exchange, is that it would restore New York as a spot cotton center. Those holding this view believe, as do most supporters of the plan, that

any system of outside deliveries on New York contracts should provide for the transfer of certificates or samples, or both, at New York, and consequently a business of dealing in actual cotton by means of these certificates and samples would be established.

This view was also held by one of the early committees of the New York Cotton Exchange which studied the possibilities of southern deliveries on New York contracts, as has been previously stated. This committee, on August 17, 1904, issued its third report on the subject of southern certification and said, in part:

> It is no doubt true that it will diminish the storing of cotton in New York, but that has been diminishing for years because New York is no longer a natural market to which it pays to send cotton to be offered to the mills or to exporters. But, as there are cotton merchants here, and money is here and the exchange is here, if we have the cotton stored safely in secured warehouses at shipping points, all ready to be sent anywhere, and we have here the sample of the certificated cotton to show to buyers, and they feel that they can buy any amount and leave it in the warehouse in the South with perfect safety, both as to grade and quantity, till they want to spin, to ship, or to resell it; if this can be done it is difficult to understand why New York will not get back her fair share of the spot business, and a much larger one than she has now.

In another part of this same report it was stated that one of the two ends sought by southern certification was "to restore to our exchange a fair share of the spot business of our great crops." Several years later, July 10, 1907, the fourth report of this committee was given to the members in which it was stated:

> This season shows more clearly than ever before that what the New York Cotton Exchange needs above all other things, and must have, is a large stock of spinners' cotton and a large business in spots.

On the other hand, many merchants are of the opinion that southern deliveries will result in very little cotton going to New York, except such as goes there to be exported. This would be desirable, according to some, because New York is an expensive point at which to store and handle cotton. Cotton is not manufactured in New York at present, nor purchased in any considerable quantity. New York has been a cotton futures market for so many years and the spot business there is so negligible in recent years that it seems certain that the futures market would continue even if the small spot business it now has should cease.

New York not a natural spot-cotton market.—It is generally acknowledged that New York is not a natural or logical place to store cotton. Cotton does not move to New York in any quantities except on a squeeze or a "near" squeeze. This was also true many years ago, for in May, 1904, a committee of the New York Cotton Exchange appointed to study southern certification stated in a report:

> Experience for several years past proves that it is rarely profitable to bring cotton to New York in any quantity except to avert a squeeze or corner. Who wants it here? Not the spinner nor the exporter. This is no spinning center and the exporter practically only takes it here when delivered on contract.

Again in the same report the committee stated:

> One of the great objections of the ordinary buyer of contracts to receiving cotton in New York is the difficulty of resale. The market is limited, the costs and charges are heavy * * *.

Also in December, 1903, this committee stated in its second report:

> New York is not a natural cotton depot. It is only naturally alink in the chain of domestic and foreign transportations, largely the latter.

The above statements from the reports of the committee of the New York Cotton Exchange reflect quite fairly the general attitude of the cotton trade of to-day. New York is not, and has not been for many years, a natural spot-cotton market.

New York an expensive place to store cotton.—Another important reason, which is closely allied to the foregoing, for permitting deliveries of cotton on New York contracts at some other point or points is the fact that New York is an expensive place to which to bring cotton, because of the high charges for handling and storing prevailing there. Then, too, because New York is not a natural spot-cotton market, much of the cotton going there bears a burden which does not appear to be justified. It has been stated by representatives of the cotton trade, and not successfully disputed, that the in-and-out handling of cotton on contract at New York exacts a toll of from $2 to $2.50 per bale. At the commission's conference in November, 1923, it was stated that cotton that has been sent to New York to be put on contract, when exported, costs about $4 per bale more than cotton exported directly from Norfolk, Savannah, or other southern ports.[4] Under the proposed system of southern warehouse deliveries there would still be a saving of about $3 per bale, since the cost of certification at the southern ports would not be greater in all probability than $1 per bale.

In contrast to the heavy expense of handling cotton at New York are the low rates for storing and handling cotton at most southern cotton markets. Furthermore, in most southern markets there are warehouses built and operated for the express purpose of storing and handling cotton. This is not the case at New York; the warehouses used there for cotton are public warehouses doing a general storage business.

Section 3. Brief outline of tentative plan of New York committee.

The present committee of the New York Cotton Exchange which is studying the possibilities of southern warehouse deliveries on New York contracts has tentatively decided upon the following more important features of a plan for such deliveries.

Delivery points.—The New York committee proposed to confine the delivery points to ports for several reasons. If interior cities were named it is claimed there would be considerable difficulty with expense bills in connection with transit privileges. Furthermore, the committee believed that to admit interior cities would cause trouble when the selection is made. There are a number of interior southern cotton markets which could qualify as delivery points and each of these places would wish to be selected. Since it is believed best to keep down the number of delivery points, at least for the present, only ports were tentatively selected. These were Norfolk, Savannah, New Orleans, Galveston, and Houston. An additional reason for naming ports is that much of the cotton delivered on contract is exported. The qualifications which a city should have to be named as a delivery point are, according to the committee, adequate and modern warehouses, adequate transportation facilities, both rail and water, and location in or very near to the cotton-producing territory.

Differential.—The committee believed that deliveries on contracts at the southern markets should be made at a differential under New

[4] Hearings, Pt. II, pp. 465–470.

York. There was considerable discussion as to the necessity or wisdom of this and also as to what the differential should amount to. Some members of the committee felt that cotton in warehouses at the ports named was worth as much as cotton in New York and consequently the seller should not be penalized. The possibilities of an arbitrary differential of a flat sum, say 20 points, were also discussed. The committee, however, decided tentatively that the differential should approximate the handling costs at the southern port plus freight to New York.

Handling documents.—All papers and documents in connection with deliveries on contracts the committee thought should be handled or cleared through New York.

Inspection and certification.—Cotton offered for delivery at any southern port, according to the committee's plan, would be inspected and certificated by representatives of the United States Department of Agriculture, subject to appeal—in fact much as cotton is now handled when delivered on contract. At present cotton to be delivered on contract is inspected by the exchange.

Changes in number of grades which may be delivered on each contract.—The decision[5] of the committee as to the grades deliverable on contract under southern deliveries was that deliveries would be made as at present; that is, any or all of the grades now deliverable would be deliverable on contract. This decision was subject to a great deal of criticism by a few members of the committee, who felt that some form of even-running contract (see Chap. VII) would be necessary, preferably a three contiguous-grade contract.[6] The members of the committee who desired to change the contract in this respect believed the present contract would give the seller too much advantage under southern deliveries; that the contract should be strengthened to offset the selection of delivery points which the plan would give the seller. Furthermore, they argued that the restriction was necessary as a protection to the small merchant. If a small merchant took up cotton on contract under the contiguous-grade contract, he could merchandise each lot of 100 bales without reworking, since such a contract would be a "mark" or, at least, approximately so. Under the present contract small merchants in many instances would of necessity move the cotton delivered to them on contract to their own concentration point in order to work it into their own marks.

It was also thought by some members of the committee that it might be well to permit delivery of all grades of merchantable cotton provided the three contiguous-grade restriction is adopted.

One-inch staple.—There was some discussion by members of the committee of the desirability of specifying for delivery cotton of 1-inch staple, with differences on or off for longer or shorter lengths, but apparently this was never advocated very strongly.

[5] This decision is tentative, of course, as are all decisions and conclusions reached by this committee which are mentioned in this report.

[6] As stated in Chap. VII, sec. 7, a three contiguous-grade contract limits deliveries on a contract to not more than any three contiguous grades now deliverable. Thus, it would be permissible to deliver on a contract strict low middling, middling, and strict middling, since these three grades are contiguous; but a delivery on a contract of cotton classing low middling, middling, and strict middling would not be permitted, since these three are not contiguous grades. It would be, of course, a satisfactory delivery if two contiguous grades were offered, or but one grade, provided they were within the present range of deliverable grades.

Section 4. The arguments for and against southern deliveries.

Introductory.—As previously indicated, the cotton trade is not unanimously in favor of southern warehouse deliveries. As is to be expected with such an important question, there are many arguments both for and against the plan. The preceding sections have set forth briefly the chief reasons for the need of some such system and a brief outline of some of the essential features of such a plan. This section sets forth the more important arguments advanced by persons in the cotton trade for and against southern deliveries.

Bear manipulation.—The opponents of southern warehouse deliveries place much emphasis upon the allegation that the plan would result in bear manipulation. In fact, it is the most common argument against the proposal. They hold that large operators would deliver, or threaten to deliver, large quantities of cotton at one or more of the southern delivery points and thus depress the market. Then when prices were depressed the manipulators would buy in their contracts and thus reap a profit and also retain their cotton. This process, it is claimed, could be repeated again and again. This would be possible because of the location of the delivery points in the South, where cotton would be available in large quantities and at very short notice; in fact, where large operators store most of their cotton. It is not always so easy now because of the difficulty and, most of all, the expense of sending cotton to New York.[7]

The allegation that southern warehouse deliveries would facilitate bear manipulation, as stated above, was also made years ago by opponents of the plan. The answer to this seems to be stated best in the words of the New York Cotton Exchange committee, which studied the possibilities of southern certification in 1903 and subsequently. In its second report this committee said:

> The fear of bulls that bears could swamp them with delivery notices seems unwarranted, as if cotton can not be sold on the spot market it comes on the future market now. Any time the current month gets too depressed we know that buyers enter the market to buy it, and at the same time sell forward ones, to make the carrying charges.

Supporters of the proposal maintain that under southern deliveries small merchants will be ready at any and all times to take up cotton on contract whenever future prices are low and that this would defeat any attempt at bear manipulation. In this connection the following excerpt from a report of the early committee of the New York Cotton Exchange is of interest. The second report of this committee in discussing manipulation stated:

> It [the southern certification of cotton] will make it far more difficult to manipulate, squeeze, and corner this market, and if to facilitate such operations is the object of this exchange, the plan should be condemned. But the object is to offer to the buyers and sellers of the world a great broad market controlled, not by cliques, but by the laws of demand and supply; a market where the buyer can be sure of delivery when he calls for it, where he will constantly arrange for delivery because he can get suitable guaranteed cotton delivered to him in the South from whence he can ship it advantageously to any part of the world. * * * A drop in futures would bring in spot buyers at once, who would call for the cotton.

It is pointed out by those in favor of the plan that New Orleans is a futures market where large stocks of cotton are stored and, further-

[7] In this connection it is interesting to note that operations such as these have been tried under the present system with results quite different from those expected. Instead of being able to buy back their cotton at lower prices the ones making the tenders have found to their surprise that the holders of the contracts accepted delivery.

more, it is in the cotton growing territory. In other words, New Orleans' near-month future prices should be subject to bear manipulation if the arguments along this line against southern deliveries for New York are valid. Some members of the New Orleans Cotton Exchange are among those who allege that bear manipulation will result under southern deliveries. These men explain the absence of such manipulation at New Orleans under the present system as follows: First, they claim the large stocks of cotton at New Orleans are not necessarily available for delivery on contracts, since much of this cotton is in the hands of factors, in other words, cotton held for higher prices. The second reason alleged by them for the absence of such manipulation is that New Orleans is a large port, with frequent steamer service to all parts of the world, so that buyers are always willing to take cotton there, knowing they can move it for export very quickly. A third reason given by them is that the New Orleans banks are strong enough to finance instantly any quantity of cotton that could be tendered. All these conditions are true for New Orleans, but would not be, so it is claimed, for some of the delivery points which might be selected under the proposed plan.

In answer to these claims that the New Orleans situation is governed by peculiar conditions it is said by those favoring the plan: There are cotton factors at all the ports which are contemplated as delivery points. Furthermore, the New Orleans answer does not explain why cotton can not be moved easily and quickly to that port. The second point stated above is regarded as having some merit. The supporters of the plan point out, however, that under southern deliveries there will be a differential on all cotton delivered at points other than the contract market. If this differential is to equal the local handling charges at points of delivery, plus the freight to the contract market, the buyer would be able to move his cotton to some port where freight space is available in the event there is a shortage at the port of delivery. In answer to the third point it is claimed that the New York banks are as well equipped to finance cotton as are the New Orleans banks; that merchants throughout the South use the New York banks now and would have no difficulty in securing all the funds necessary with cotton for security. This answer does not take into account the ability of the local banks to do much of the financing.

Lower prices paid to growers.—Another argument against southern warehouse deliveries made by some cotton merchants is that it will result in lower prices being paid to growers. They reason that under such a system the near month will be lower than the distant months and, as cotton is generally bought from growers at prices figured in relation to the near month, the prices paid to growers would be less than would obtain under the present system.

The advocates of the plan do not all agree that the near positions necessarily will be lower than the distant months. W. L. Clayton at the commission's hearing was asked if he thought southern warehouse deliveries would "tend to reduce the discounts on the distant positions." Mr. Clayton replied that—

> It would certainly prevent writing into the near months any uneconomical or unnatural premium; it certainly would prevent that. But I want to make this point clear: That it would not necessarily prevent premiums on the nears.[8]

[8] Hearings, Pt. II, p. 476.

At another time in the hearings Mr. Clayton said:

Regardless of whether we have southern warehouse delivery or not, trade conditions at times will make for premiums on the nears and at other times it will make for discounts on the nears.

Even with discounts on the nears the commission does not see that it is established that growers would receive lower prices. Those who argue that such would be the case are often contradicted by their own statements. First they protest that competition in the cotton business is exceedingly keen and that it is almost impossible to find any bargains in the shape of cheap cotton. Then they state that it would be a fine thing for the cotton trade if the carrying charges were present; if possible the carrying charge should be restored or some plan devised to restore it. But when the proposal of southern deliveries is suggested they suddenly fear for the effect upon the prices the grower will receive, because the plan will force the near month to a discount; in other words, will tend to restore the carrying charge. It would seem to the commission that an industry alleged to be so highly competitive would include many merchants who would be willing to increase their basis in order to obtain cotton; also, it would include some who would buy the near month, sell the distant, and, taking delivery, earn the carrying charge. If this is true it would seem reasonably certain to the commission that the discounts on the nears would never be permitted to become very great and that the basis would undoubtedly take care of the grower. Finally, the commission desires to call to the attention of those arguing that southern deliveries will result in lower prices for growers that this can only come about by lessening the value of a commodity enjoying a world wide market and that the cotton trade is unanimous in holding that the only factors governing cotton prices are world wide supply and demand, except for the temporary price situations due to manipulation.

Increase of discounts of futures under spots.—Another objection to southern deliveries on New York contracts is that it will, it is alleged, weaken the contract and result in still wider discounts of futures under spots. The chief reason for expecting this increase in discounts is the greater latitude the contract would give the seller; that is, the selection of the delivery point. This increase in discounts would increase the hedging risk somewhat, but most dangerous of all, they claim, it would attract the attention of legislators to the fact that future prices were below spots; and they predict this would result in very drastic legislation against future trading, as many people believe that futures at a discount tend to depress spot values.

An increase in the tendency to discounts would not necessarily follow the adoption of the plan, according to many of its advocates. Many believe that futures would much more closely reflect the value of actual cotton, which would be most desirable. Furthermore, futures in recent years have been at a discount under spots very frequently, and yet those cotton merchants who argue against the proposal will not agree that the discounts of recent years have affected spot values. They admit that such a situation might attract the adverse attention of some legislators but no more so, they claim, than the present situation. In fact, it is contended by many supporters of the plan that southern deliveries would not necessarily increase discounts of futures under spots.

There are many supporters of the plan who are concerned with the increase in the seller's option and its possible effects. Several suggestions have been made tending to offset this situation. The most common suggestion went to the limitation of the grades that might be delivered on any one contract (see Ch. VII, sec. 12). Other suggestions were that the seller pay a penalty in addition to the freight and carrying charge differential for electing to deliver at a market other than the one wherein the contract was made; that the seller be required to give more notice when he intends to deliver elsewhere than in the contract market; and combinations of the above suggested limitations.

Difficulty of arranging for freight space.—It is claimed by those opposing southern deliveries on New York contracts that merchants will be unable to make definite arrangements for steamer space for cotton to be taken up on contract because they will not know a sufficient time in advance where the cotton will be delivered. At present New York contract prices are sometimes low enough compared with spot prices to warrant merchants buying contracts to fill forward sales. Either such forward sales are basis middling, so that all cotton tendered on contract may be delivered on the forward sales, or the merchant expects to select sufficient bales from the cotton tendered to meet forward sales of definite grades. The character of cotton in store in New York is generally known to the trade and it is possible to secure, by payment of a small premium, delivery of cotton of certain grades, provided, of course, such grades are available.

While it is admitted by the commission that the uncertainty as to where cotton will be delivered constitutes a real objection to southern warehouse deliveries, it is also concluded that it is not important enough to be a sufficient reason for abandoning the plan. The cotton trade as a whole acknowledge that only occasionally is cotton bought through the futures market to meet forward sales.

Differences.—Opponents of the plan point out that the question of differences is of great importance in connection with any system of southern deliveries on future contracts, and, they allege, it will be very difficult, if not impossible, to work out a system that will be fair to all. It is claimed that if the present system of determining differences as applied to New York (see Ch. VI, p. 139) should be followed with southern deliveries on New York contracts, then sellers would, as far as possible, deliver at that market where the differences are most favorable to them. This, of course, would be disadvantageous to the buyer who, in turn, foreseeing this probability would adjust his prices for futures accordingly. Moreover, the large seller, as against the small, would tend to be favored. If local differences were applied, that is, the differences prevailing at the point of delivery, cotton for delivery on contract would tend to move to that point where the differences were most favorable. This, of course, would tend to equalize differences. The most important objection made, however, to this method of establishing differences lies in the danger of inaccurate quoting, due to the small volume of trading at times in some of the markets. The commission believes that competent quotation service should go far toward obviating this danger.

There are several other suggested methods of establishing differences, all of which it is claimed by opponents of southern deliveries

are unfair to either buyer or seller. Thus if the differences used for settling deliveries of grades other than middling were those prevailing at the market where the differences for grades above middling were widest and those for grades below middling were narrowest, it is asserted that an injustice would be done to buyers, and if at the market where the differences for grades above middling were narrowest and those for grades below middling were widest, that an injustice would, in some cases, be done to sellers.

This question of differences is of great importance in connection not only with any plan of southern deliveries but with the present system of delivery. The entire question of differences is discussed elsewhere in this report. In connection with southern warehouse deliveries the commission desires to point out that the subject of differences should be given very careful consideration.

Advantage to large firms.—One alleged disadvantage of southern warehouse deliveries is that the plan would give the larger spot dealers much more advantage over the smaller firms than that which it is alleged they now enjoy. It is claimed that these large firms will be able to depress the market, as set forth in a preceding part of this section; that they will be able, because of having their own representatives at the several delivery points, to operate much cheaper than the small firms; that they will be able to take advantage of any system of differences that may be devised, to the injury of the smaller firms. In short, it is alleged that they will turn to their own advantage most of the factors set forth in this section as faults of any system of southern deliveries on contracts, whereas the smaller firms will not only be unable to do this but will be the ones to suffer.

Those large firms which support the proposal for southern warehouse deliveries maintain, first, that they do not now necessarily have any advantage over their small competitors that is not offset by some disadvantage. They also maintain—and are supported by many smaller firms in this opinion—that southern deliveries will make it much easier for the small firms to receive and deliver cotton on contract. They also declare that the plan will have such a beneficial effect upon price relationships that all cotton merchants will be benefited because of a decrease in basis risks. Furthermore, it is claimed that with delivery points in the South it will be easier and far less expensive to handle cotton on contracts and small merchants as well as large will be on the alert to take advantage of any price situation which makes it profitable to tender or receive cotton on future contracts, whereas now the many small merchants are deterred from taking up or delivering on New York contracts because of the trouble and expense.

Uncertainty as to where cotton will be delivered.—Closely allied to the preceding objection is the one raised as to the uncertainty as to where the cotton will be delivered. This, it is alleged, will be less disadvantageous to the large firms than to the smaller ones, because the former would probably have organizations of their own at each delivery point, or at most of them, whereas the small firms would not. This uncertainty, it is claimed, would prevent small firms taking up cotton, would withdraw support from the market, and thus make it easier for bear manipulation. It is also argued that the above results would not obtain, and that there are certain advantages of the plan

which would induce the small merchant to take up cotton. Thus the cotton delivered at southern ports can be moved in any direction as well as from New York; and, furthermore, the southern delivery points would be spot markets where the cotton could be disposed of readily if the receiver had no other outlet for it.

It is argued also, in connection with small firms taking up cotton on contract, that it would place them at another disadvantage because it would be necessary for them to send representatives to the market where the cotton is tendered to attend to receiving it. It is retorted that this last will not necessarily be the case and that many firms do not send their men to New York to take up cotton under the present system. Thus, there are firms in New York and also in New Orleans that specialize in taking up cotton and in making deliveries for out-of-town merchants. Supporters of southern deliveries believe there will be firms at each delivery point to perform similar services.

The commission desires to point out, however, that under the proposed plan it would still be possible to make deliveries at New York, and if this is so undesirable a point at which to receive cotton this possibly may have some effect upon the attitude of small merchants toward taking up cotton, since they would not know where the cotton was to be tendered until they received the delivery notice (New York or the South.)

Difficulty of financing.—Some opponents of the southern warehouse delivery proposal allege that it would be difficult to finance cotton under the plan. They hold that New York banks are suspicious of southern warehouse receipts and do not lend money on them as readily or to the same extent as they will on New York receipts.

This may have been true some years ago, and, in fact, this lack of confidence in southern warehouses was one of the chief reasons, if not the chief one, for dropping the plan in 1904. At present, however, the commission does not find this objection well founded. Banks throughout the East not only lend money freely on southern warehouse receipts, but solicit such business. This of course applies in particular to receipts from warehouses at the larger markets and concentration points. The larger modern warehouses of Savannah, New Orleans, Memphis, and Galveston, for example, issue receipts which are used by merchants throughout the country as collateral for loans with New York banks. Furthermore, it is contemplated that any system of southern warehouse deliveries will throw additional safeguards around the warehouses which are to be used for storing certificated cotton. In fact, this argument is almost without any foundation at the present day.

Officials of some New York banks making large loans on southern warehouse receipts have asserted that they believe some system of southern warehouse deliveries is essential if future trading at New York is to continue.

Additional expense.—Any system of southern warehouse deliveries will result in additional expense to the marketing of cotton, it is claimed, and since the grower or consumer, or both, will have to stand this burden the result will probably be lower prices to grower and higher prices to the consumer. The additional cost will be due to the maintenance of inspection bureaus, etc., at the southern delivery points.

The cost of maintaining the necessary machinery to run a system of southern deliveries, it is admitted, would be more than the cost of the present system, but against this, however, should be applied the higher toll exacted at New York at present which would more than equal, in all probability, the increased cost above mentioned (assuming New York remains a delivery point).

Lessening of speculation.—It is claimed that southern deliveries on contract would result in discouraging speculation, and that the contract would be too much in the seller's favor and buyers would be afraid to deal in such a contract. This would result in selling down the futures market and again would play into the hands of the large firms and be very detrimental to the growers.

It is the opinion of the commission that speculators in general know comparatively little about the details of handling the commodities in which they speculate. If they do know, however, it would seem that any speculator who desired to take up cotton would prefer to have it in a southern port where he has a competitive market in which to dispose of it, and lower storage and handling charges, than at New York.[10] Of course, this would not apply to a speculator who hoped to manipulate the New York market, but it is such operations that the system is supposed to eliminate.

Contract should be specific as to delivery point.—It is argued that the contract for future delivery of cotton should be as definite as to point of delivery as practicable, and that the buyer should know when he makes such a contract that the cotton will be delivered to him at a specified place. Furthermore, it is contended the seller should be ready to fulfill such a contract or to buy it back. To permit the seller to elect to deliver on a contract at any one of several points not only gives the seller too much leeway but it is very unfair to the buyer. This objection, it is contended, is emphasized by the fact that the seller already has two distinct advantages over the buyer, namely, the selection of grades which he will deliver, subject, of course, to the cotton futures act, and the selection of the day of the month when he will make delivery.

While the above is essentially true, it is not complete. The commission believes it might be better to have a contract somewhat indefinite as to point of delivery than a contract specific as to delivery in New York, where transportation and expensive handling are involved. It is admitted by the trade that it is not only expensive, but at times very difficult, to get cotton into New York. It is doubtful whether it has ever been actually impossible to get cotton into store at New York in time to be certificated and delivered, provided reasonable time was allowed for shipment.[11] There have been times, however, when it has required an undue expenditure of time and money to accomplish this result. The seller of the contract who ships his cotton in ample time may find that because of railroad congestion his shipment can reach the warehouse in New York before expiration of the delivery period only by having some New York firm perform considerably more service than should be necessary in putting cotton on contract.

Furthermore, there are other difficulties facing the trader who desires to put cotton on contract at New York. Not only would it be necessary to pay the cost of getting the cotton to that market and the high handling charges prevailing there, but the possibility of having a part of the cotton rejected as not being tenderable is frequently present.

[10] This assumes deliveries will not be made at New York.
[11] This does not take into account the delays due to strikes or embargoes and such unforeseen occurrences.

This is a very important matter to the cotton merchant; they all fear the possibility of rejection at New York. Some merchants when tendering cotton ship an excess of bales in order to take care of the possibility of rejections. If any bales are rejected or if the merchant has shipped extra bales, he is in a bad position for he has a small lot of cotton in New York where it is not only expensive to carry it but is a difficult place to dispose of it, New York not being a spot market. In addition there has been freight paid on the excess bales.

Under the southern warehouse deliveries it is claimed that much of the trouble over rejections will be removed. The delivery points would be spot markets with numerous buyers, and the rejected bales undoubtedly could be readily sold at least at something near their value.

Injury to New Orleans futures market.—In addition to the foregoing objections the point has been made by members of the New Orleans Cotton Exchange that southern deliveries will injure that market. One New Orleans cotton merchant said, in part:

> We have in New Orleans an ideal situation, in so far as a hedge market is concerned. The geographical position of New Orleans, which permits shipments within a few days of cotton from any part of the cotton producing section, protects a man who has short hedges in the market and on the other hand, the position of New Orleans as an ideal point through which to move cotton to consuming points in any part of the world, lends itself as an attractive hedge protecting market for a man who has long hedges. In other words, we believe that we have in New Orleans an ideal situation which should not be taken away from us by any artificial Government orders and there is not any reason in the world why New York should have the support of the Washington Government in an attempt to establish itself as dictator of cotton prices over the world.

Several other New Orleans merchants held a similar belief.

Fear of adverse legislation.—Objections to the plan raised by some merchants are grounded on fear of legislation harmful to the entire cotton trade. It is argued that if any effort is made to have some system of deliveries on future contracts at southern points the resulting plan, if legislation is necessary, will never be one which the proponents had hoped for, because of changes made while the plan was in process of formation. Supporters of the plan, on the other hand, do not admit this, and some contend that additional legislation is not necessary.

It is answered that there have been several occasions in recent years when legislation affecting the cotton trade has been before Congress. In 1914 and again in 1919 laws were enacted having a very far-reaching effect upon the cotton business. These laws to-day are very generally held to be splendid pieces of legislation by the trade, even by most of those who opposed the legislation when it was pending.

Section 5. Abolition of deliveries at New York.

It is held by some cotton merchants that under a system of southern deliveries on New York contracts deliveries at New York should be prohibited. The reasons for this are as follows: If deliveries are permitted at New York it will probably have a depressing effect upon future prices, because New York is not a desirable place to receive

cotton and some trader or traders would make deliveries at that point solely as a means of depressing the market. It is conceded by many supporters of the southern delivery proposal that it would result in few deliveries being made at New York because of the greater desirability of the southern points for making deliveries as compared with New York. This, it is contended, will make it still more desirable to prohibit deliveries at New York, since the cost of handling would undoubtedly increase because of the lessening of such business.

It is also feared by some that if deliveries are possible at New York cotton from the New England mill district, particularly toward the close of the crop year in times of poor demand would be tendered on contract at New York. This, it is believed, would tend to have a depressing effect upon the future price not justified by the general demand for spot cotton.

To prohibit deliveries at New York, according to some members of the New York Cotton Exchange, would be a severe blow to that market. It would, no doubt, have an immediate unfavorable effect upon the business of a few concerns. It is thought by many in the trade, however, that the adoption of southern deliveries would have the same effect. That it would be injurious to the market as a whole, however, is denied.

The commission believes that deliveries of cotton on New York contracts at New York under a system of southern deliveries should be prohibited for the reasons set out above. In this connection, the commission desires to point out that grain futures in Canada are traded in at Winnipeg, but deliveries on contracts are at Port Arthur and Fort Williams, several hundred miles from Winnipeg.

Section 6. Does southern delivery require new legislation?

The commission has not examined into the matter of whether or not a system of southern warehouse deliveries could be put into effect without further Federal legislation. Apparently the laws of certain States will affect the details of such a plan. The commission refrains from expressing an opinion on the legal status of the proposal. A careful reading of the existing cotton futures act, however, discloses nothing suggesting a limitation on the power of the New York Cotton Exchange to establish such rules as it deems best with regard to the place where deliveries on contracts dealt in on its trading floor may be made. Other desirable features of the plan might require new legislation. Some who oppose southern deliveries believe additional legislation would be necessary. At the commission's hearing, W. P. Jenks, of the New York Cotton Exchange, was asked if he thought a system of southern warehouse deliveries could be put into effect without a change in the existing law. Mr. Jenks replied:

> I am inclined to think it could be done, but I would not like to answer that question without consulting counsel.[12]

Other cotton merchants have expressed an opinion similar to that of Mr. Jenks.

[12] Hearings, Pt. II, p. 405.

Section 7. Conclusion.

The commission believes that some form of southern delivery on New York contracts should be adopted, and recommends that Congress enact legislation to that end. The commission further believes and recommends (1) that the number of southern delivery points selected for New York deliveries be few and at least for the present be only Atlantic and Gulf ports; (2) that the delivery, inspection, and certification of cotton at southern ports shall be under rigid Government supervision and that deliveries shall be only from warehouses licensed under the Federal warehouse act; (3) that the tender of cotton on futures at New York be no longer permitted.

In connection with this section reference should also be made to Chapters VI and VII, especially to the conclusions arrived at in those chapters.

Chapter IX

SOUTHERN DELIVERY IN THE LIGHT OF STATISTICS

Section 1. The statistical problem stated.

In connection with the subject of Southern warehouse delivery on New York future contracts there are two statistical questions of fundamental importance, which are not unrelated to each other, but which may be dealt with separately to advantage.

Squeezes.—The principal ground of complaint against the New York market is in relation to delivery-month conditions, when it is alleged that manipulation by way of squeezes is frequent.[1] This situation affects the hedging use of the New York futures by cotton merchants, in particular causing the hedge to cost the small merchant more than it otherwise would. Squeezes are objectionable also because they make the future price artificial for the time being.

Discounts of futures under spots and of fars under nears.—The second important statistical question arising in connection with the study of the operation of cotton futures, as now traded in at New York, and with the consideration of possible improvement from southern warehouse delivery, is the persistency of discounts on the futures as compared with spot cotton, and on the far months (or options) within the crop year as compared with the near months, these two being in effect different phases of the same thing.

Discounts of futures below spots can not be satisfactorily measured for the New York market as such, because there is no spot market in New York adequate to supply the necessary quotations on actual spot transactions; hence the comparison must be between New York futures and spots in the South. On this basis of comparison it is necessary to qualify the word "discount," since the parity between New York futures and spot cotton in the South should show New York futures perhaps 70 points above the southern markets because of freight and expenses connected with transportation to and delivery at New York. Notwithstanding this reason for a difference in the direction indicated, New York futures frequently sell at a price below that of spot cotton in the South.[2] In principle the word "discount" as applied to spots in relation to New York futures should refer to a failure of the New York future price to be high enough in relation to spot prices to substantially reflect the cost of bringing the actual cotton to New York. As a matter of fact, the price of spot cotton in the South is frequently at about the level of the price of the New York future.

The reference to discounts as made by men in the cotton trade commonly, or even usually, is to discounts on the far options as compared with the near options, in which case the mere subtraction of one price from the other is appropriate.

[1] See Chapter VII, p. 163, for definition of squeeze. [2] For example, see Appendix Table IX.

The discounts of far options under nears may be due in part to urgent buying of the nears, and this in turn may be due to squeezes or the expectation of squeezes. To the extent that such urgent buying is a factor, the discounts are due to the same causes as the squeezes. But the discounts do not appear merely when delivery is at hand. They are quite general, and are often large, three or four months prior to the time of delivery.[3] The discounts must, therefore, be attributed to more general causes than squeezes, although supply and demand conditions in the cotton futures market are fundamental for both problems. Among the supply conditions, one general cause of discounts that has been suggested is short crops, a subject which is considered in section 5 of this chapter.

The spot-future discount and the interoption discount, where the terms of the spread relate to the same crop, are, as already mentioned, different phases of the same thing. It is usually assumed, for example, that in November the May future ought to sell above the December future, because the supply of cotton in May is much less than that available in December, and whatever part of the crop there is left at the later date must have been stored, and corresponding expenses incurred, which would tend to increase the value of the cotton on hand in the later month. This difference in price, or such a difference as might naturally be attributed to this cause, is sometimes called the "carrying charge." As a result of this same factor there should likewise, according to the carrying-charge theory, be a difference between the price of spot cotton in November and the price of the May future at the same time, the latter being higher by an amount allowing for the cost of carrying cotton.

True parity between spots and New York futures.—While the proposition holds generally that spots and futures come together in the delivery month, it requires explanatory qualification in two particulars and is, in a third respect, open to misinterpretation as applied to New York cotton futures.

The seller's options (as to quality and time of delivery) in the future contract tend to cause a discount on the futures in the delivery month. The discount should be fairly constant from option to option and year to year, and if the commodity dealt in by way of futures is physically well adapted, through its natural homogeneity or its conformability to standard classifications, to future trading, it should not be large. The seller's option factor in the spread for cotton is apparently not large, because the average spread in the delivery month is not large. A plus spread, or what may be called a carrying-charge difference, as expressed in prices, may be expected to be smaller than it otherwise would be by whatever may be the effect of this factor upon the computed discount. A minus spread or discount may be expected to be correspondingly greater. These statements refer to spot-future spreads. An interoption spread is presumably not affected, since the same allowance would naturally apply to both options.

Spot quotations at larger spot markets are frequently for even-running lots, while deliveries on futures are usually of mixed lots. This

[3] For example, see the four-year averages of Tables 5b and 5c in Appendix 5. The largest discounts, occurring where options relating to different crops are compared, are not due to the same causes as those between options relating to the same crop year.

difference between spots and futures is reflected in the merchandising basis,[4] which varies greatly from time to time. For statistical purposes this difference might be measured by comparing basis-middling [5] spot prices with even-running middling spot prices, but spot prices adequate in quantity and quality for such a comparison are not available, so that no such computation has been made.

A direct comparison between spot prices in the South and New York future prices, which is the only kind of comparison that is practicable, should, as already mentioned, make allowance for the normal difference (a matter of freight and handling charges) between the points compared. In theory this price difference should be substantially constant. This factor in the situation means that, even when New York futures are above southern spots, the showing may still in effect amount to a discount on the futures, and that actual discounts directly computed do not fully reflect the strength of factors producing them.

True parity between New York futures and southern spots will, therefore, obtain when the two are different from rather than equal to each other. In other words, the apparent spread will be greater or less than the departure from true parity. If the freight difference, for example, is 70 points, a premium on spots of 20 points is in effect a discount of 50 points below true parity $(20-70=-50)$ and a discount on spots of 20 points is 90 points below true parity. Considered from this viewpoint, ignoring for purposes of illustration the premium situation, (1) the delivery-month discount due to seller's options in the future contract should be subtracted from a directly computed discount on the spots; (2) the difference between a basis-middling price and an even-running middling price should also be subtracted from a directly computed discount; and, (3) the freight difference should be added to such a discount.[6] The third item is approximately 70 points at present. The second item, it may be inferred from an expert opinion cited elsewhere,[7] amounts to about 15 or 20 points, certainly never as much as 50. The first, if one may judge from delivery month discounts at New Orleans which register both these influences, can scarcely be more important. Hence, it may be estimated for purposes of illustration merely and with exactness disclaimed, that a true parity between the two is reached when the spot price in the South is below the New York future price by something like 30 or 40 points. The market relationship between futures and spots in any particular delivery month, will, of course, vary from any such computed normal or true parity. But in general, New York futures are in effect at a discount when appreciably less than 30 points above southern spots.

The above-mentioned factors directly affect the true parity between futures and spots in the delivery month, when actual cotton may be applied on future contracts, and the effect should be reflected back prior to the delivery in substantially the same way. But in considering spot-future spreads some time prior to the time of delivery atten-

[4] Which may be described as the difference between the price the merchant will pay or take for a given grade of spot cotton and the future price.

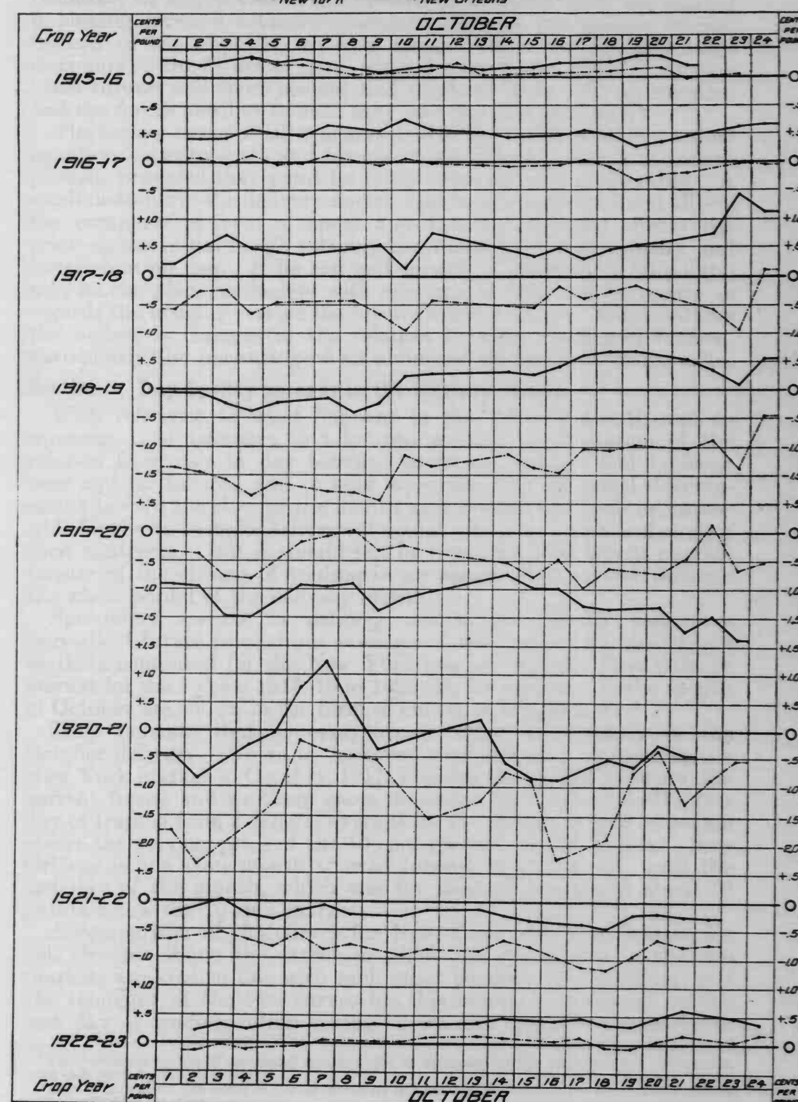
[5] For description see Ch. VI, sec. 1.

[6] The freight difference is not a factor in the New Orleans spot-future spread if New Orleans spots are used in the computation. If the spread is computed from the 10 designated spot markets a comparison between New Orleans spot prices and the average of the 10 spot markets indicates that the difference would usually not be large enough to outweigh the other two factors described. Hence, one should expect New Orleans futures to be at a discount, and the degrees of the departure from true parity at New Orleans is less instead of greater than the discounts as directly computed.

[7] Ch. VII, sec. 12, p. 185.

Diagram IV. CURVES SHOWING DAY BY DAY SPREADS BETWEEN THE OCTOBER OPTION IN THE DELIVERY MONTH ON THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES AND THE TEN DESIGNATED SOUTHERN SPOT MARKETS FOR EIGHT YEARS

New York —— New Orleans -·-·-



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tion should also be called to the carrying charge, or minimum carrying cost, as a possible factor in the result. In contrast with those previously mentioned this factor is cumulative in its effect as one gets back farther from the month of delivery, always supposing the boundary of a crop year is not crossed or a season when the market is looking forward to more abundant receipts and greater stocks, instead of the opposite, entered upon. There are actually large discounts on the future at times when delivery is far ahead. At such times futures and spots are not tied together, as in delivery months, and the forces peculiar to each may pull the two wide apart.

The hedger is not at all concerned with the point at which a final equation between spots and futures in the delivery month is accomplished, provided that point be fairly constant and predictable. A small discount in the delivery month that is to be expected and affects the comparative level of spots and futures generally affects the price on the initial hedge sale and the repurchase price equally and causes him no loss. If he can reckon with a discount of 30 points, say, he can place his hedges with reference to that and be secure as regards the hedging service the futures market offers. What bothers the hedger is changes in the relation between spots and futures, particularly the narrowing of an abnormal discount on hedge sales.

Section 2. Day-by-day spreads in the delivery month.

With reference to what happens in the delivery month and to squeezes, it is necessary to take into account the variation of the relation from day to day between spots and futures and between near and far futures, and to note especially any abnormal developments toward the close of the month as it becomes difficult or impossible for shorts to make delivery of actual cotton as a means of closing their contracts. But it should not be forgotten that effects characteristic of the closing of trading in an option may extend through the whole period of the delivery month.

Spot-future spreads in delivery months for October options.—Spreads of future prices from averages of spot prices [8] for the 10 spot markets computed for the New York market and the New Orleans market for the 8 years 1915–16 to 1922–23, for each day in the month of October are shown in the form of curves in Diagram IV.[9]

They indicate that squeezes occur rather infrequently in the October delivery. There is, however, evidence of a squeeze in the New York market in October, 1917, because the spread between the current future and southern spots increased on the next to the last day of trading from a general average for the month around 50 points above the average price of the 10 spot markets to 140 points. New Orleans in the same month showed futures at a discount until the last day of the month, which was for most of the month about 50 points below the 10 spot markets.

A comparison of the curves for New York and New Orleans for this October shows the extent to which the movements in the two markets are kept in line with each other possibly by straddling, and the tendency of the two curves for this month to converge on the last day of trading (after having shown the opposite tendency for

[8] Daily averages for the 10 designated spot markets, as computed by the Department of Agriculture, with each market given equal weight.

[9] Lack of quotations, due either to market inactivity or a holiday, may shorten the curve for one market without affecting the other.

five days previous) may perhaps be related to such straddle operations.

It is possible that the curves for October, 1918, should also be read as indicating a slight squeeze or congestion at the close of the month, of substantially equal effect at both New Orleans and New York. But there was little change in the spread except in the last three days from the 17th to the end of the month.

October, 1919, shows a peculiar condition in that the New York future was throughout the month below the level of the New Orleans future. This indicates a disposition on the part of long speculators in the New York market to run away from deliveries at that time. In October, 1920, also, it appears that the holders of long future contracts were inclined to run away from delivery at New York, but in this case the New York futures stayed above the New Orleans futures. There is also an evident tendency for the curves for the two spreads to fluctuate in opposite directions during this month.

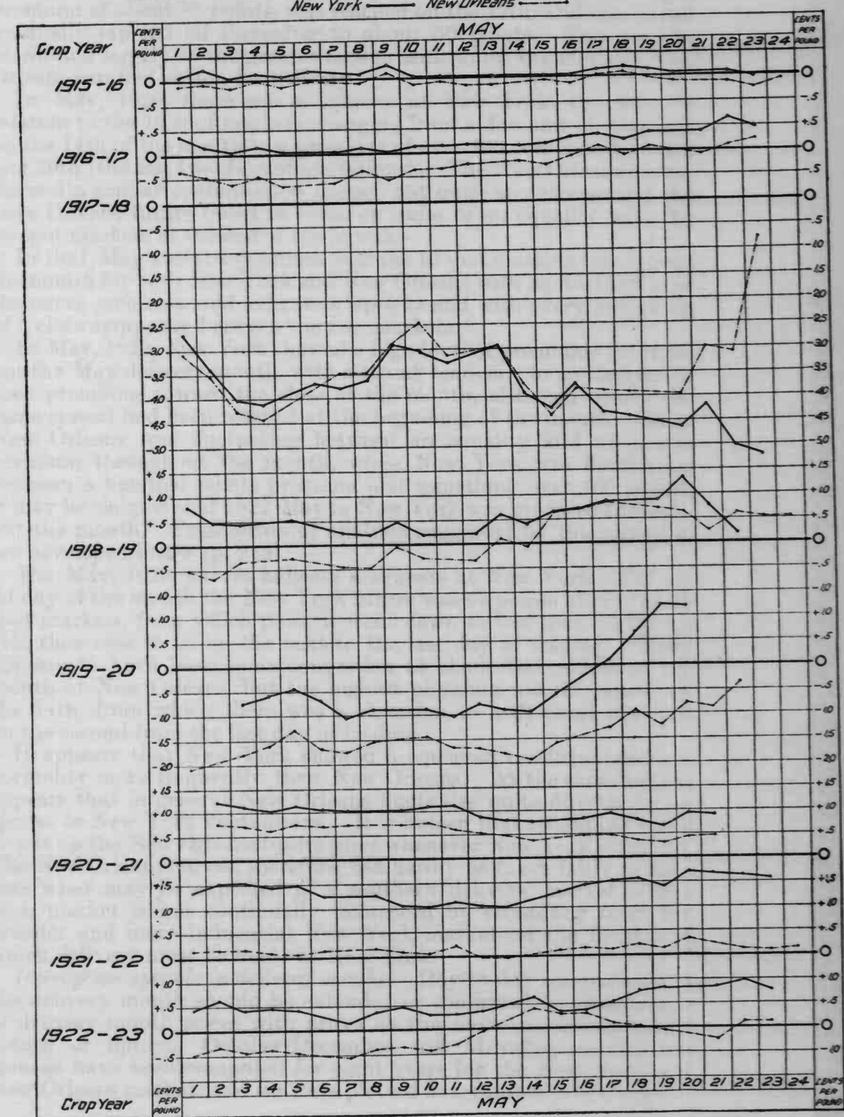
In October, 1921, trading conditions for both New York and New Orleans appear to have been normal and equable throughout the month, with New York consistently showing, except on one day, a slight discount under the 10 spot markets. For October, 1922, the curves show slight indications of a squeeze, but with New Orleans fluctuating around the average of the 10 spot markets and New York rather evenly at about 30 to 50 points above the spot markets.

Squeezes do not appear to occur as frequently in the earlier as in the later delivery months of the crop year. A possible explanation of this result is the fact that the supply of cotton is smaller towards the end of the crop year than it is early in the crop year. Squeezes depend more or less upon the supply of cotton available for delivery being comparatively small. It might be added that this condition of itself suggests the likelihood of more frequent squeezes at New York than in the southern market, because of the frequent absence of adequate stocks of cotton in New York.

Spot-future spreads in delivery months for May options.—Comparisons of the spreads of New York and New Orleans futures from the average price for the 10 spot markets are shown in Diagram V. For the month of May in 1916 they indicate a disposition on the part of the longs in both markets not to receive cotton. In May, 1917, the spread curves suggest a mild degree of congestion, both at New York and New Orleans. At New York the price earlier in the month practically touched the level of the 10 spot markets, and rose to a premium of 65 points on the 22d. This premium is just about what is required to ship cotton from the South for delivery on New York futures. It should be noted that New Orleans showed as large a swing in the spread from the 10 spot markets during May, 1917, as did New York, but most of the change was by way of bringing the price up from a discount of 65 points to a premium of 20 points or so.

In May, 1918, there appears to have been a squeeze in New Orleans while the New York longs were running away from delivery. But this appearance of a squeeze, as the curves are drawn, is not entirely to the point, since what it amounts to is the running up of the future price from a discount of 398 points on the 20th of the month to a discount of only 79 points on the 23d.

Diagram V. CURVES SHOWING DAY BY DAY SPREADS BETWEEN THE MAY OPTION IN THE DELIVERY MONTH ON THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES AND THE TEN DESIGNATED SOUTHERN SPOT MARKETS FOR EIGHT YEARS.



May, 1919, at New York shows the definite earmarks of a squeeze, with the price running up from 24 points premium over the southern spot markets on the 12th, to 134 points premium on the 20th. New Orleans also shows evidence of congestion, but the high mark, a premium of about 85 points, was reached on the 17th, and the spread gradually tapered off thereafter to about 50 points. This may be attributed largely to the greater facility with which the shorts at New Orleans can find cotton for delivery.

In May, 1920, there was a squeeze at New York, the price in relation to the 10 spot markets changing from a discount of 92 points on the 14th of the month to a premium of over 120 points on the 19th and 20th (the last two days of quotations). The New Orleans curves showed a similar conformation though not quite so extreme and the New Orleans future failed to come up quite to an equality with the 10 spot markets at the end of the month.

In 1921, May was at a premium over the 10 spot markets throughout the month for both New York and New Orleans with no fluctuation in the curve such as would indicate a squeeze and with every indication of a close sympathy between the two markets.

In May, 1922, New York showed a high level of premiums throughout the May delivery month, with a strong tendency to an increase of such premiums toward the close of the month, although nearly the same spread had been reached at the beginning of the month. Since New Orleans was fluctuating between an equality and 34 points premium throughout the month, while New York was fluctuating between a hundred points premium and something over 160 points, it may be claimed that 1922 May in New York was squeezed throughout the month. Possibilities of analysis suggested by this situation are developed below (p. 215).

The May, 1923, curves indicate a squeeze at New York. On the 2d day of the month the New York future was 64 points above the 10 spot markets, from which point it went down to less than 20 on the 7th, then rose to 99 on the next to the last day of trading. There appears to have been some congestion at about the middle of the month at New Orleans, but the highest premium was 42 points, on the 14th, from which there was a recession to a 21-point discount on the second from the last day of trading.

It appears that New York showed a squeezed condition and abnormality more frequently than New Orleans. At the same time it appears that in general New Orleans fluctuates quite directly in response to New York fluctuations. It is known that straddling tends to put up the New Orleans future price whenever New York is run up. The New Orleans curves, therefore, can hardly be taken fairly to indicate what may be expected of a southern delivery market where such market is not continually influenced by straddling from the broader and more influential New York market on the futures of which delivery must be made at New York.

Interoption spreads in delivery months.—Day-to-day comparisons in the delivery month should be extended or confirmed by comparison of delivery-month prices with prices on the next succeeding active month or option. October-December and May-July interoption spreads have been computed for eight years for the New York and New Orleans markets and the data plotted in accompanying diagram.

Squeezes are in this case indicated by discounts on the later month and the accentuation of such discounts.[10]

The October-December spread day by day for the month of October is shown in Diagram VI. Curves for 1915 and 1916 are decidedly regular with a premium on the far option and little tendency to any fluctuation in this interoption spread. October, 1917, shows considerable discounts throughout the month and an increase at the close of the month in the discount for the New York future, of the far under the near, of a nature to indicate some element of squeezing. A similar dip occurs in both the curves for October, 1918, New Orleans showing more pronounced evidence of a squeeze than New York, at least as regards the conformation of the curve toward the close of the month, although the change in the direction of an enhancement of the discount during the month as a whole is substantially as great at New York as at New Orleans. The interoption spread for October-December in October of 1919 shows a result similar to that for 1918, except that New Orleans is more decidedly at a discount than New York. Conditions in 1920, as indicated by the interoption spread in October, show some indication of congestion early in the month, which disappears before the close. In 1921 and 1922 the curves for both markets are in general very regular, with slight premiums of the far over the near prevailing, except as regards New Orleans in the later year, where the near and the far are substantially on the same level with each other throughout the month.

For the month of May an interoption spread has been computed—and curves plotted in Diagram VII—for the two futures markets, comparing May and July options. The 1916 and 1917 curves hardly call for any comment. The 1918 May curves suggest a squeeze at New Orleans but none at New York. The 1919 curves indicate considerable apprehension on the part of the longs of both markets, but the large discounts may be attributed to general causes and they become smaller late in the month. The 1920 curves show clear evidence of a squeeze at both markets, operating more strongly, however, at New York, as evidenced by the sharper drop in the curve as well as by the heavier discounts on the far option throughout the month. May of 1921 shows stable conditions with premiums on July throughout the month. The 1922 May curve shows some evidence of a squeeze at New York, but none at New Orleans, the evidence consisting in large discounts on the fars throughout the month, as well as an enhancement of the discount toward the close of the month. In the 1923 May a similar condition held as regards New York, with larger discounts although not so conspicuously increasing as in 1922.

On the basis of this comparison also it appears that New York makes a somewhat worse showing than New Orleans as regards evidence of squeezed conditions.[11] But the comparison of futures with southern spots, although not as exact in nature as the comparison of options by way of their spread,[12] is in some respects better

[10] These spreads as plotted should be read differently from the spot-future spreads. Distance from the axis and its variation is still essential but by the statistical convention observed in this report (comformable to that used for spot-future spreads) the near option price is subtracted from the far option price, so that a premium on the near is looked at from the other end and given a minus sign as a discount on the far.

[11] No attempt has been made to force an exactly parallel reading of the evidence of the two sorts considered—that is, the spot-future and the interoption delivery-month spreads. But the two are not inconsistent with each other unless a doubtful reading as compared with a definite decision be regarded as an inconsistency.

[12] It should be noted that, as regards the spot-future curves, there is a difference in time, or a lag, between the terms of the comparison which makes the fluctuation in the points difference on a particular day not specifically significant. Of this the greater irregularity of the curves of Diagrams IV and V than of VI and VII is sufficient evidence.

Diagram VI. —CURVES SHOWING DAY BY DAY SPREADS BETWEEN THE OCTOBER AND DECEMBER OPTIONS IN OCTOBER ON THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES FOR EIGHT YEARS

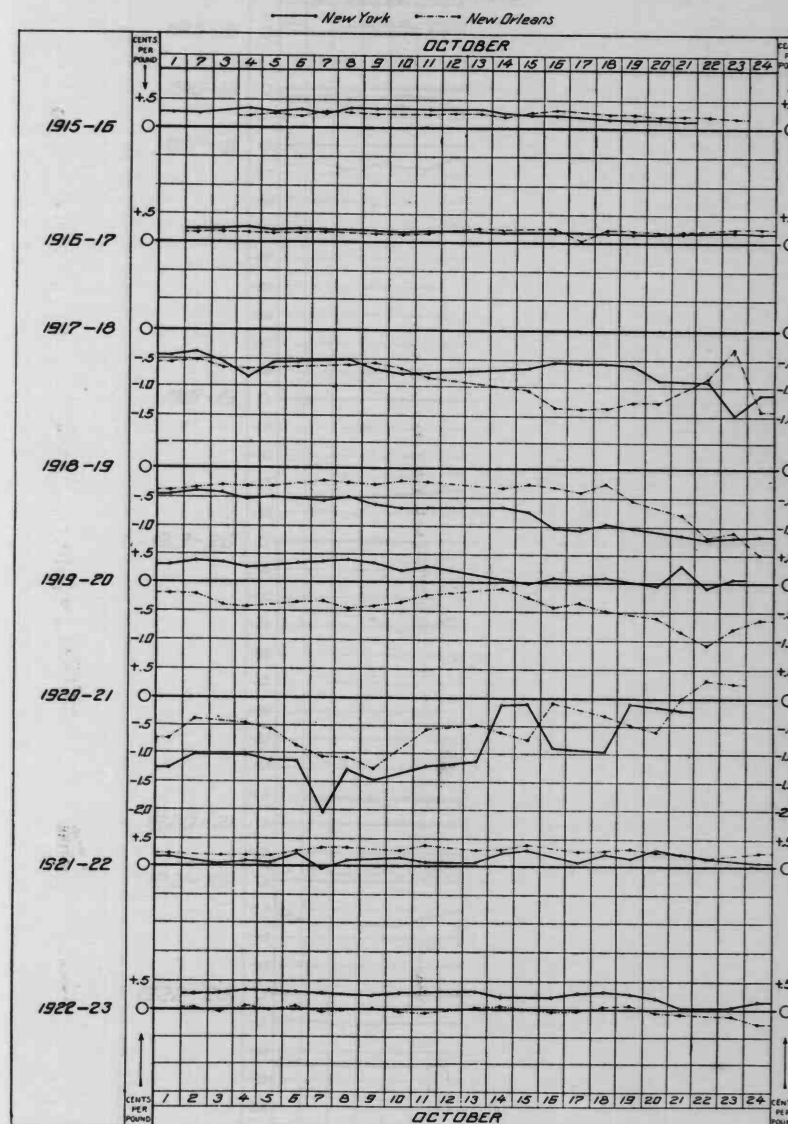


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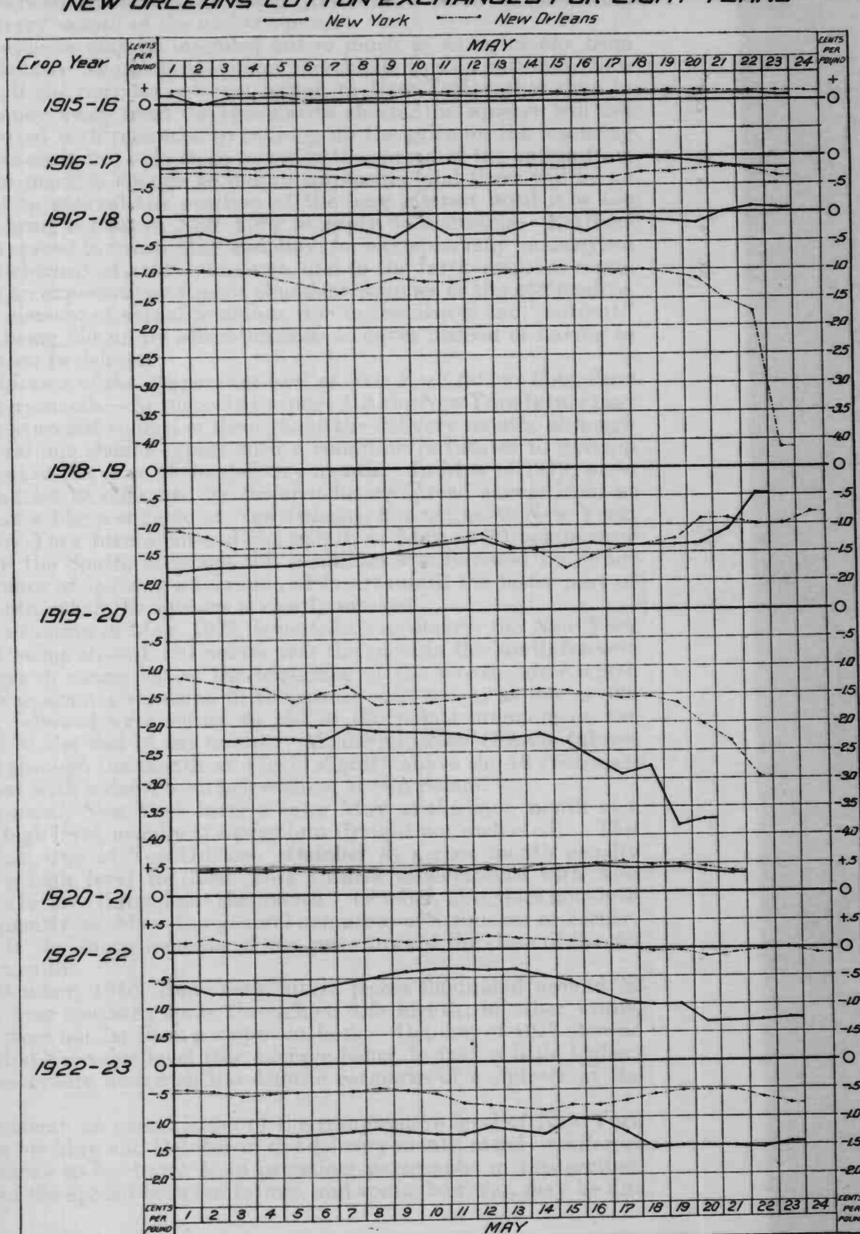
Diagram VII. CURVES SHOWING DAY BY DAY SPREADS BETWEEN THE MAY AND JULY OPTIONS IN MAY ON THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES FOR EIGHT YEARS



evidence of squeezes than the change in the interoption spread during the delivery month of the earlier option.

The squeeze may be intended not so much to wring money from the speculative shorts as to compel merchants to ship cotton to New York. If the purpose is to get cotton to New York rather than to take money away from the speculative shorts, the squeeze will not be operated with reference to running up the price on the maturing option as such, but only so as to widen the spread of the option from southern markets enough to induce shipments, and there will be no attempt to conceal the position of the long interest until it is too late to bring cotton to New York to apply on contracts. Furthermore, a spread between May and July, for example, may be analyzed into an element of actual discount, due to the further option representing an expectation of more abundant supplies of the commodity, and an element of actual premium, due to the nearer and "current" option being bid up by sellers anxious to cover instead of having to find cotton to deliver.

Significance of the comparative level of New York futures throughout the delivery month.—As suggested on page 213, the New York future may be in a squeezed condition throughout the delivery month, although in general one should expect such a condition in futures to develop only toward the close of the delivery month. In May of 1919, when the situation as indicated by the spot-future spread curves looks at first glance like a squeeze at New Orleans, but not so at New York, the New York future entered the month of May at 80 points over spots in the South, although this condition was followed by either an advance of spots or a recession of futures until the latter part of the month, when the squeeze is clearly marked.

The situation in May, 1922, is more extraordinary, the New York futures being around 150 points over the spots in the South for several days in succession at the beginning of the month, after which there was again a recession in the spread, but not to as low as 100 points, followed by a return to 150 or 160 points premium on the futures at the end of the month. Meanwhile New Orleans futures moved through the month at a level slightly above the 10 spot markets, but with a depression below them at two points.

In general, New York futures enter May as the spot month at a rather high level, usually at a premium (freight not deducted). This is seldom true at New Orleans. October as a spot month usually shows a high level for New York futures as compared with New Orleans futures throughout the month. October, also, does not show so frequently as May the general symptom of a squeeze or corner, which is the sharp increase of the price toward the close of the delivery month.

In October, 1916, New York future prices fluctuated around 52 points over southern spots throughout the month; in other words, prices were not far from a shipment basis. October of 1917 showed somewhat the same level (the average being, in fact, a little higher) but less evenly and with the definite earmarks of a squeeze at the end.

In general, an examination of the comparative level of New York futures for May and October in the delivery month merely reinforces conclusions to be drawn from preceding paragraphs in this section. Some of the spread between futures and spots, however, may be due

to the varying degree of correctness with which commercial differences are determined, the relative overvaluation of any grade that is not extremely scarce tending to strengthen any element of delivery-month discount there may be, regardless of squeezes.

The fact that the squeezed condition of New York futures extends back throughout the delivery month and is thus allowed to become evident to anyone who knows the comparative price of spot cotton in the South and futures in New York may be taken to indicate that the holder of the long interest in such a case has no objection to receiving cotton. This is the last thing that the mere cornerer wants; hence the motive behind the New York squeeze may not be the mere manipulation of the futures. How a merchant may seek to "manipulate" the New York futures as a means of protecting his hedges in the New York market is elsewhere explained.[13] It would seem that this is more often the motive than the mere squeezing of speculative shorts. Spot cotton can be sent from Norfolk to New York and actually delivered on futures on 48 hours' notice. On the other hand, it takes perhaps ten days or more for cotton from Texas to reach New York for delivery.[14]

Section 3. Discounts of far under near options and of futures under spots.

Conclusions from available statistical data.—In considering the prevalence of discounts in general, instead of merely in the delivery month as in the preceding section, it is convenient to pay more attention to interoption spreads than spot-future spreads. It is properly assumed that the carrying charge should be reflected in both sorts of spread, and any tendency to a discount of fars under nears is as important with reference to the counterbalancing of the carrying charge, and the disturbing effect of discounts upon hedges, as is a similar tendency to discounts of futures under spots. Questions as to what is a true parity, furthermore, do not complicate the comparison in the case of interoption spreads as in the case of spot-future spreads, because both terms entering into the interoption spread are affected in the same way.

Comprehensive interoption spreads for the full duration of trading in the paired options have been computed for the eight-year period, 1915–16 to 1922–23. They show so strong a tendency to discounts that the eight-year averages show premiums on the fars only in the early calendar months of the crop year and for the options maturing early in the crop year. Averages combining the various options and calendar months for this eight-year period show that, for options relating to the same crop year, the discount at New Orleans is slightly less than three-fourths as large as the discount at New York. Where different crop years are involved in the interoption spreads, however, the discount at New Orleans is slightly, but only slightly, larger than the discount at New York.

Because of the inclusion of the war years within this eight-year period, and because of the extraordinary effect of the war upon futures, especially in the direction of causing very heavy discounts, it is important to obtain averages for the years in this period. For this

[13] See Ch. VIII, sec. 2, first subsection; also p 225 below.

[14] With respect to the significance of the comparisons made, it should be noted that New Orleans shows so close a correlation with New York, that this tendency may obscure the natural effect of southern delivery upon the relation between spots and futures.

purpose the years 1915–16, 1916–17, 1921–22, and 1922–23 are taken as comparatively normal. A test of the difference between these four comparatively normal years and the eight years of the entire period, made with regard merely to the fact of a discount or a premium on the total number of instances of spreads covered in the respective periods, shows a heavy preponderance of negative spreads, or of discounts, in the eight years. In the four-year period discounts are still numerous, but they are not preponderant for spreads between options pertaining to the same crop, as in the eight-year period. With reference to this proportion, it should be remembered that, for options of the same crop year, because of the influence of the carrying charge, discounts on the fars should be exceptional.

Average interoption spreads for the four comparatively normal years also show a situation favorable to the workings of the New Orleans as compared with the New York futures market.[15] In other words, the premiums at New Orleans are larger or the discounts are smaller. The number of instances used for spreads where both options mature in the same crop year, and when the trading month is also within the crop year, is 296 and the average spread at New York is +0.65 of 1 per cent of prices, while at New Orleans it is +0.91 of 1 per cent—a larger premium for New Orleans.

Instances, numbering 148, where both options mature in the same crop year and when the trading month is prior to the crop year delivery, show a combined average spread for New York of −0.05 of 1 per cent and for New Orleans of +0.08 of 1 per cent. For options maturing in different crop years, the number of instances is 236 and both the average spreads are discounts, the spread at New York being −4.38 per cent and at New Orleans −4.31 per cent. The total result appears to be in favor of New Orleans as a market of which the usefulness is less impaired by a tendency to discounts than is that of the New York cotton futures market.

Some similar four-year averages for spot-future in place of interoption spreads have been computed, comparing the 10 spot markets with New Orleans and New York futures, with results likewise favorable to New Orleans.

All the data and analysis upon which the foregoing conclusions and generalizations are based are contained in Appendix 5, to which the reader is referred for details.

Monthly average spot-future spreads for eight May options.—In order to relate the facts shown by interoption spreads to the facts as regards spot-future spreads, the spot-future spreads comparing New York and New Orleans with the 10 spot markets for the May option in 8 years have been computed and are presented in the form of curves in Diagram VIII. These curves show when premiums, or "carrying charges," appear in the cotton futures markets. The spreads are shown in numerical form in Appendix Table IX.

In 1915–16 the curves for the spot-May spreads, on the basis of monthly averages, show considerable conformity to the carrying charge theory. There were discounts at New York only in April and at New Orleans only in February, March, and April,[16] and the

[15] The number of instances from which the average is derived is made the same for New Orleans and New York, a spread that can be computed for one market but not for the other not being used. Therefore the disparateness of the spreads combined into a single average, does not affect the accuracy of the comparison of the two markets.

[16] The delivery month would naturally not show a carrying charge.

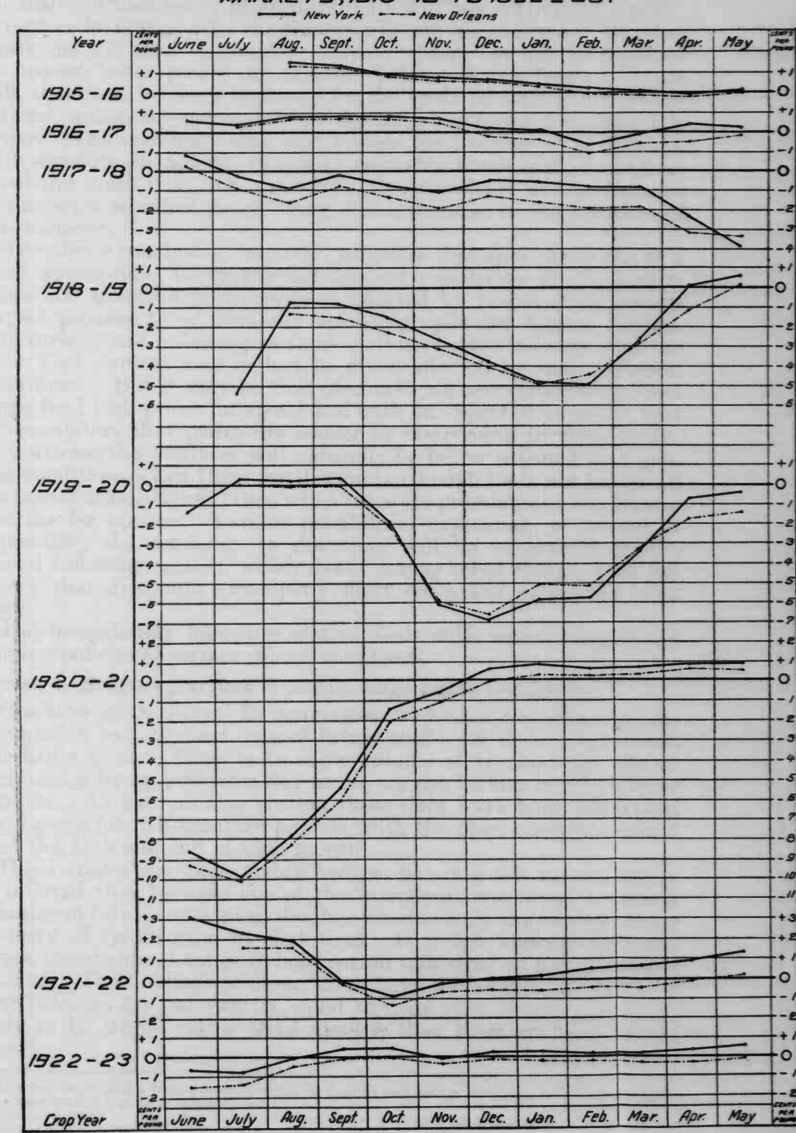
premiums for months prior to these regularly increased with the remoteness of the delivery month. In September at New Orleans the premium was 127 points, which, averaged to February, when it had disappeared, amounted to 25 points a month. The 1916–17 spot May curve also shows premiums up to and including November for New Orleans, and up to and including January for New York, but the dip in February is very sharp and evidence of congestion in the New York market appears in April. In none of the other six years is there anything like a normal carrying charge conformation of the spot-May curve.

There were discounts and only discounts in 1917–18 and 1918–19, both at New York and New Orleans, except for the effect of the New York squeeze on spreads in April and May in 1919. The slant of the curves from August to January in 1918–19, it is true, was downward, as in the case of the two earlier years that show a carrying charge influence, but no such factor was at work for there were discounts and only discounts, the figure increasing from 77 points discount at New York in September to 492 points in February. Some of the other curves show a similar dip at the beginning of their life (when the spot prices are for the old crop), but their conformation is otherwise controlled by the tendency of the spot and future prices to come together in the delivery month, which causes the discount to narrow gradually from its maximum to some sort of parity with spots at the close of the option. For the May, 1920, option the maximum discount was reached in December. Within the crop year 1920–21 it was reached in August. Discounts were not so large in 1921–22 and 1922–23 as previously, but instead of showing the slope characteristic of a carrying charge, the curves show the opposite sort of a slope. The relationship between the two markets (spots and futures) reached a condition of practical equilibrium for the 1921–22 May option (referring to the closing months of the option)—if one may judge from the appearance of the concluding part of the curve—at a price for New York May futures more than 100 points above the 10 spot markets; and in 1922–23 the similar practical equilibrium involved a price at New York about 50 points above the 10 spot markets. New Orleans was scarcely 15 points away from the 10 spot markets in the delivery month in either of these two years, in the first year that much above them and in the second year that much below them.

The inference from the spot-May spread curves points to the same general conclusion as that obtained by the more general comparison of far and near options for an eight-year period, except that, with the figures taken this way year by year, it does appear that on occasion the cotton market can show a carrying charge, even under the present cotton futures act, which has been thought by some in the cotton trade to be the cause of the tendency to discounts on the fars.

Practical bearings of the discounts.—If the futures market makes it possible for a merchant to sell the hedge at a price sufficiently above the price paid to the producer of the cotton to give him a carrying charge, or for him to deliver the cotton on the futures at a profit, he will be a ready buyer of spot cotton, regardless of whether there is an active demand from the mills or not. When the futures are at a discount under spots, or when the fars are at a discount under the nears (conditions which operate to make the simple hedge sale an

Diagram-VIII CURVES SHOWING MONTHLY AVERAGE SPREADS BETWEEN THE MAY OPTION ON THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES AND THE TEN DESIGNATED SOUTHERN SPOT MARKETS, 1915-16 TO 1922-23.



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inadequate means of protecting cotton carried unsold), the merchant will meet the situation in part by being less ready to carry stocks of cotton, and anxious to dispose of cotton hedged at a discount before the discount narrows or disappears. He will buy cotton less readily, except as he makes sales to spinners who are his customers; in other words, he will tend to lower his buying "basis," or will be disposed to buy at fewer points on, or more points off, the future. There will, therefore, be some tendency for the spots to come down to the futures, unless the demand from the mills for forward contracts is active. The merchant may also mingle his hedging at a discount with straddle operations, in a way requiring much skill, as well as involving much risk. On the whole, the prevalence and persistence of discounts is, other things being equal, inimical to the interests of the producer.

The above conclusion, however, supposes that spot prices are at a level appropriate to supply-and-demand conditions in the cotton trade and that the future price is affected by technical conditions largely peculiar to or primarily operating upon the futures market. The present and following sections of this chapter indicate that the New York futures may in fact be much affected by such technical conditions. But it may be that discounts are associated with short crops (and high prices for spots) and with an expectation on the part of speculators that prices are sooner or later going to come down. In that case the producer will naturally be better satisfied with general conditions when there are discounts (though he is not better off because of the discounts) than when there are premiums on the futures and the far options. Various possibilities explaining, or offered as explaining, the tendency to discounts will be considered in the second following section, which deals, among other things, with the theory that discounts accompany short crops and premiums large crops.

The immediately following section deals with actual hedges and hedging policies of certain cotton merchants.

Section 4. Hedging practices of certain large cotton merchants.

Character of the data.—In connection with this investigation, the commission has obtained data of future trades for three large cotton merchants in such form as to show volume of transactions and of open trades by options from day to day on the various cotton futures markets. As used in this section these data have been condensed into figures for half-monthly periods, with the open contracts shown as of the 15th and end of each month.

These trades are presumably hedges, but it is not necessarily to be inferred that because one of the merchants was short a certain quantity of futures on a given day he owned exactly the corresponding quantity of spot cotton at that time. It is not unusual for some cotton merchants at times to hold cotton unhedged to a considerable extent.[17] The holdings of these three large merchants, therefore, if their holdings are not exactly equal to their open futures, are more likely to be larger, rather than smaller, than their net open future sales.[18]

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[17] It is not likely that a large merchant would be holding any cotton unhedged when his net open future sales are at a high or maximum point.

[18] Net open trades are the cumulated excess of sales over purchases (or purchases over sales) and are the outstanding future commitments of the trader or hedger in question.

The net sales of the merchants in a particular market, however, and especially in a particular option, do not necessarily represent actual cotton held. The other end of such an open sale may be an open purchase in a different option, or in a different market. In other words, the straddle operations of the larger merchants are reported to be extensive; and their position in a given option or in a given market may sometimes relate to their straddle interests instead of their spot-cotton holdings.

These data of futures obtained for three large cotton merchants are presented only in combined form. The data are not quite complete. There was shown a negligible quantity of trades in the futures of Havre, France, which has been disregarded. One of the three merchants did not return data for other than the New York futures market but stated that his New Orleans and Liverpool future trades were "not very large." The data for another of the three merchants were not quite complete, the futures of branch houses not being included, but the omission does not affect the representative quality of the data by markets. The compiled totals are considered representative of the use made of futures markets by such cotton merchants.

Character and variation of the future interests of the three merchants.—The extent of the transactions of these three merchants, subject to qualifications for incompleteness just mentioned, is indicated by the data presented in Appendix Table X, which shows their combined purchases and sales of New York cotton futures in hundreds of bales by half-monthly periods for the three crop years 1919–20, 1920–21, and 1921–22. Their purchases on the New York futures market ranged from 3,000,000 to 4,750,000 bales per year. But the extent of the cotton business of these merchants at any particular time is best indicated by their open interests.

Appendix Table XI shows open interests of these three merchants at New York and also open interests for the three large futures markets, subject to the qualifications previously mentioned. It is noteworthy that the net open interest was substantially always on the short side; that is, the merchants are presumably holding cotton unsold (as spot cotton), which is protected by a hedge sale of the futures. The average sold open interest of the three merchants at New York was 146,000 bales in 1919–20, 176,000 bales in 1920–21, and 228,000 bales in 1921–22. The short open interest for all three markets combined was considerably larger than this except in the first of the three years, despite the fact of the omission of the interest of one of the three merchants at New Orleans and Liverpool. The open sales as averaged (net) for the year are reduced somewhat by reason of the fact that the net open is on the other or long side of the market at the close of 1919–20 and also for several months during the early part of 1920–21.

The net open long interest of these firms on the New York market reached a maximum of 74,000 bales at the end of August, 1920. It is noteworthy that at the corresponding date of the previous year the net open interest was on the short side of the market and amounted to 154,000 bales, while in 1921 at the corresponding date the open interest was also short and amounted to 389,000 bales. The appearance of this long open interest for several weeks can not, therefore, be explained by a seasonal cycle in the needs of the cotton merchants, but must have been due to special conditions prevailing in the summer of 1920.

It would seem that prior to the business crisis that came in the fall of that year cotton mills were eagerly purchasing cotton for forward delivery and promptly pricing their buyer's call contracts to an extent that might itself properly have been taken to be an indication of an approaching business crisis. Because of a reversal of business conditions and slackness of mill demand the cotton merchants were probably putting out short hedges to an unusual degree in the later months of 1920–21 and the earlier months of 1921–22. Cancellations of purchases also were probably a factor in the situation.

The peak of the open interest of these merchants in the New York market in 1919–20 amounted to 296,000 bales (on the short side) and was reached on October 31.[19] In 1920–21 the peak was reached on the very last day of the crop year, that is, July 31, 1921, and amounted to 393,000 bales. Conditions at this season also controlled the location of the peak in the next crop year, the largest figure for that year being for August 15, and amounting to 404,000 bales; but the next largest figure of this crop year occurred on May 31, and amounted to 402,000 bales.

The figures for the three markets combined ran a course similar to that for the New York market. The maximum for 1919–20 occurred at the same time, but amounted to somewhat less than the separate New York figures. The maximum for the three markets combined in 1920–21 occurred at a different date from the maximum for New York and was considerably larger, being 452,000 bales on June 15. In 1921–22 the combined maximum also was at a different date from the New York maximum, although in the same general period, occurring on September 30 and amounting to 444,000 bales.

Magnitude of their interest in futures.—With regard to the indicated magnitude of the operations of these three merchants, it is noteworthy that an open interest in the futures of 400,000 bales, with cotton at 25 cents or 30 cents a pound, involves net commitments to the value of $50,000,000 or $60,000,000.

The scale of operations of these merchants in its relation to trading on the New York Cotton Exchange is set forth in the following table:

TABLE 22.—*Total New York futures transactions and open interests (hundreds of bales) in relation to the operations of certain large cotton merchants, 1919–20 to 1921–22*

	Crop years		
	1919–20	1920–21	1921–22
Total sales of futures at New York	733,333	677,586	783,617
Sales of New York futures by 3 cotton merchants [a]	28,127	40,050	45,477
Ratio (per cent) of merchants' sales to total sales	3.84	5.91	5.80
Average end-of-month open at New York Cotton Exchange clearing house	7,411	7,861	9,317
Average open interests of 3 cotton merchants [a]	1,463	1,756	2,275
Ratio (per cent) of merchants' open to total open at clearing house [b]	19.74	22.34	24.42

[a] For data see Appendix Tables X and XI.
[b] It would be proper, with reference to indicating the importance of these three merchants in the market, to add the long open to the short open in obtaining this average, instead of computing the net, as is done.

[19] Actually the highest figure of those at the middle or end of the month, as with the other peaks referred to.

The three merchants' future sales accounted for from 4 to 6 per cent of total New York future sales and their open interests were 20 to 24 per cent of the total open at the clearing house. The first ratio is an inadequate measure of the weight of the merchants' trading because of the scalping that enters into the trading across the ring.[20] The open at the clearing house, on the other hand, is considerably smaller[21] than the quantity open for all customers on the books of clearing members, and the merchants' net open is more nearly comparable with the latter than with the former figure. It is clear, at any rate, that of the contending interests in the New York cotton ring some are giants among pygmies.

The weight of the trades and open interests of these merchants in total trading and in total open interests, and the extent to which their participation is based upon straddle operations—taken in conjunction with the degree to which their position is an index of what is going to happen to the market—argues in favor of the prompt publication of total transactions and total open interests in each futures market as the figures change from day to day. Such publication would serve to prevent the dissemination of exaggerated rumors. On the other hand, reasonable interpretations of the situation in futures would have something definite to tie to.[22]

Futures open by options graphically presented.—In dealing with the data of the futures of these three merchants, with reference to determining what may have been their practices in the use of the futures market, it is necessary to consider the figures in detail as separated by markets and options. An understanding of the policies pursued is facilitated by having the data presented in the form of curves. With reference to hedging and other possible uses of the futures the significant figure is the figure for the open interest of the merchants as it appears from time to time for each option. All the figures used are for net open interests. This means that if one merchant is on the long side and another on the short side of a particular option the combined figure is the difference between the two. It is presumable, however, that the policies of the different merchants in relation to an existing demand and price situation will tend to be similar, so that the merchants will usually all be long or all be short as regards their net position at any given time. This in fact is usually the situation. In handling their straddles, it is true, they may differ from one another as to their judgment of the needs of a situation more than in hedging.[23] But the combined net figure will be all the more representative of the balance of opinion among these merchants. It should be noted that, on the assumption that the net open on all options and markets is substantially equal to spot cotton commitments calling for hedging, it is possible to read from the curves plotted by options and by markets the comparative volume of straddle operations.[24] Open purchases at Liverpool, for example, may be part of a straddle

[20] The scalpers buy and sell in substantially equal quantities during the day and therefore ordinarily have little or no effect on the course of prices from day to day.

[21] The clearing member who has customers long to the extent of 20,000 bales and other customers short to the extent of 35,000, settles the offsetting 20,000 and is short at the clearing house only 15,000 bales.

[22] This subject is discussed in section 10 of Chapter V.

[23] But the danger of diversity in the handling of straddle operations that involve taking deliveries at New York on one option and putting them out on the next may occasion a desire on the part of friendly cotton merchants to be together in such matters.

[24] Cotton merchants sometimes hedge the cotton they are buying by a sale of one option and then hedge a completed spot sale for forward delivery by the purchase of another option (or market) instead of covering the hedge sale. But such an operation is in substantial effect a straddle, though that designation is not exact or adequately descriptive.

operation between Liverpool and New York on which the short end is at New York, where it is likely to be combined with a large volume of short hedges. But, as will appear presently, the straddle interest is more often or more largely a matter of straddling between options than of straddling between markets.

Diagrams IX–a and IX–b contain the curves by options for the combined figures of the three merchants. Included also are curves for the same options showing the spread of New York futures from the average of the 10 designated spot markets.[25]

Owing to the practice of straddling, the significance of the successive curves for a particular option is in large part dependent upon what is shown in the curves for other options at the same time, but it is necessary first to consider the curves separately, and it is convenient to consider them in the order of the options.

Octobers, Decembers, and Januarys.—The merchants were generally short of the October options. But they were to a considerable extent long of Liverpool futures toward the close of the October option in 1920, and again though not so much in the 1921 Liverpool Octobers. In fact, these merchants in general appear to use the long side of the Liverpool market and are willing to be long at Liverpool throughout the life of an option, as they are seldom disposed to be either at New York or New Orleans.

There is a marked difference between the character of their future trades in 1921 Octobers and in the Octobers of the preceding year. In 1920 they were considerably short of Octobers early in the life of this option and then reduced their short interest, even becoming long of the option at New York by the middle of May. In 1921 Octobers, on the other hand, they were increasingly short of the New York option up to the 15th of June and very heavily short from then till after July 15. From then on they steadily reduced their short interest but were at no time appreciably long of the market in that particular option. The reason for this may be inferred from the character of the spread between New York futures and spot cotton in the South during the period. There was a good premium on spots, or a carrying charge, practically throughout the period, so that merchants had less hesitancy in selling the future, even when it became the near future, and less hesitancy in buying cotton in the expectation of holding it under such a hedge sale. The situation was very much the opposite of this during the life of the 1920 October option. For the part of the life of the 1922 October option that is covered by the data the situation was fairly favorable to short hedging and the option was being rather freely used in this way, although with some tendency to a reversal of form appearing about the first of July, apparently in response to a change in conditions as regards the price spread.

During the three years the merchants appear to have been more inclined to buy than to sell Decembers. They were long at New York

[25] With reference to comparison with these spread curves, as well as with regard to the fact that the New York futures are more comprehensive for the merchants represented than futures for other markets, the curves for New York open interests are made somewhat more conspicuous than those for the other markets. It will be noted that the options maturing at a given time of year are separated by an interval of time from each other, the trades in an option for one year being closed out before trading in a corresponding option for the succeeding year begins, except in one case. The March, 1920, and March, 1921, options seem to run together. As a matter of fact, this is due to the coincidence that one of the merchants closed out a small long interest at New York in the last half of March, 1920, and another merchant purchased in the same half month period the same quantity in the option maturing a year ahead.

in 1920, the spread being favorable. At the same time they were short at New Orleans; and they were short at Liverpool before the end of August, and long at Liverpool thereafter. It should be remembered that the merchants' net total open interest in the summer of 1920 at New York was on the long side. They were considerably short of December at New York only for a rather brief period during the fall of 1921. They showed a general disposition to strengthen their long position just before the maturity of the December options.

In the New York Januarys the merchants are, in two out of three years covered, short during the earlier life of the option, the exception being the January coming to delivery in 1921. In this option they were long throughout and heavily long from September to January. In the other two years they began to shift from the short to the long side previous to November. This shift and the beginning of a development of a long interest was therefore made 60 days or so before the beginning of deliveries of January cotton. The conformation of these two January curves is of interest because it to a large extent anticipates the form of the curves for March and May options.

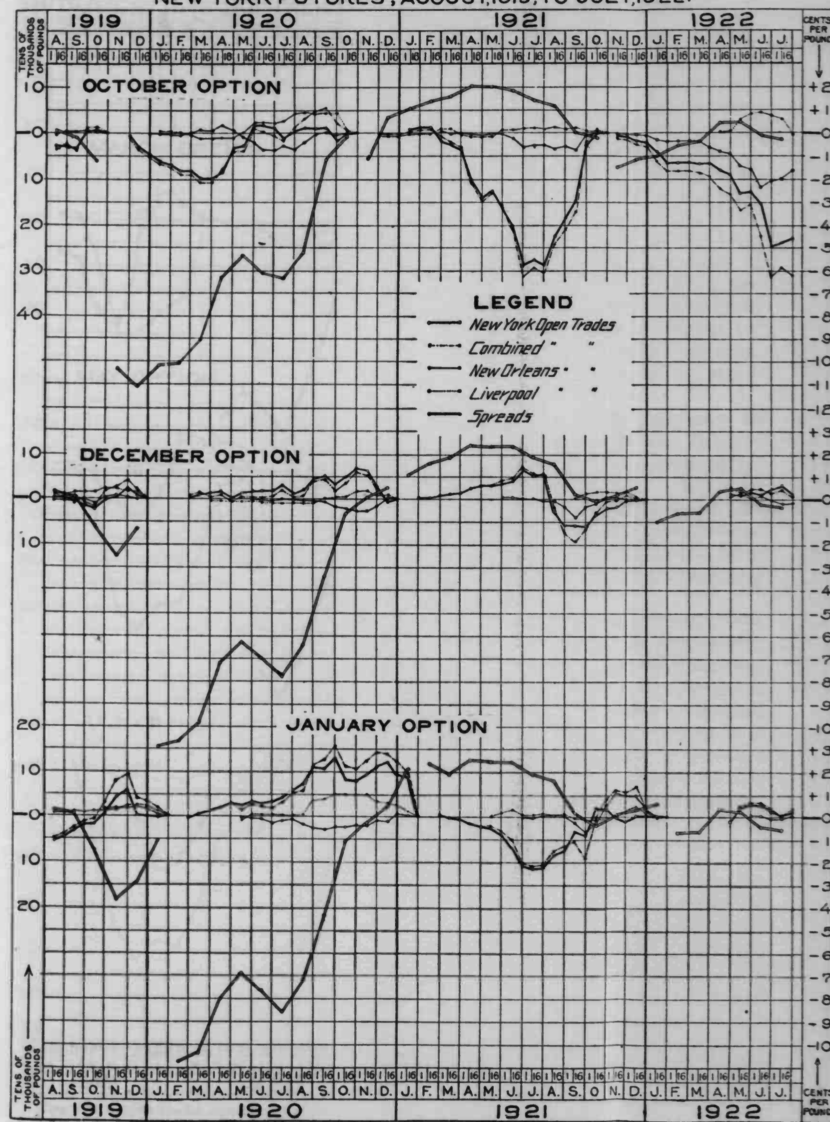
Marches, Mays, and Julys.—The New York March options, with a qualification as regards those maturing in 1921, show the same characteristics as the two January options above discussed, but with greater regularity in the conformation of the curves and with greater swings in the change from the short to the long side. The 1921 March option is exceptional in respect to the fact that after the shift to the long side had occurred there was a change of attitude and a shift back to the short side early in December, from which position the merchants did not emerge until the 15th of February. The general tendency of the merchants to be long in the summer of 1920 has been referred to above on this page. This shift is also evidently related to the appearance of premiums on the March option over spots in the South at the same time as these merchants decided it was worth while to go back to the short side of March. As regards the 1922 March option, also, the influence of the development of premiums and their increasing size appears to be reflected in the rapid reduction of the long interest of these merchants in March after the middle of January.

The May options (at New York) show the same general conformation as the March options with the same shift from the short side to the long side, and the same shift back in the case of the 1921 May, explicable also by the same situation as regards the relative prices of New York futures and southern spots.

There is, however, a stronger tendency for the merchants to hold their long position well into the delivery month in March than in May of 1922. But the end of both these curves suggests a tendency to a squeeze. There was, in fact, a very decided squeeze at New York in May, 1922.

The July options show the merchants consistently short, and very heavily short, to an extent that does not hold for any other of the groups of options. This tendency was modified to some extent in the case of 1921 Julys, but was particularly strong for 1922 Julys. In fact, the short interest of the three merchants in the July, 1922, option at all markets combined at one time exceeded 550,000 bales. Practically 440,000 bales of this was at New York. This very large open short interest, it appears, was in great part due to the July

Diagram IXA – OPEN INTERESTS OF CERTAIN LARGE COTTON MERCHANTS, BY MARKETS FOR OCTOBER, DECEMBER AND JANUARY OPTIONS ON THE 1ST. AND 16.TH. OF EACH MONTH, TOGETHER WITH MONTHLY AVERAGE SPREADS, BETWEEN THE TEN SOUTHERN SPOT MARKETS AND NEW YORK FUTURES, AUGUST, 1919, TO JULY, 1922.



NOTE.—The open trades should be read as of a date a half month earlier than the plotting indicates. Pounds in the left-hand scale should be read bales.

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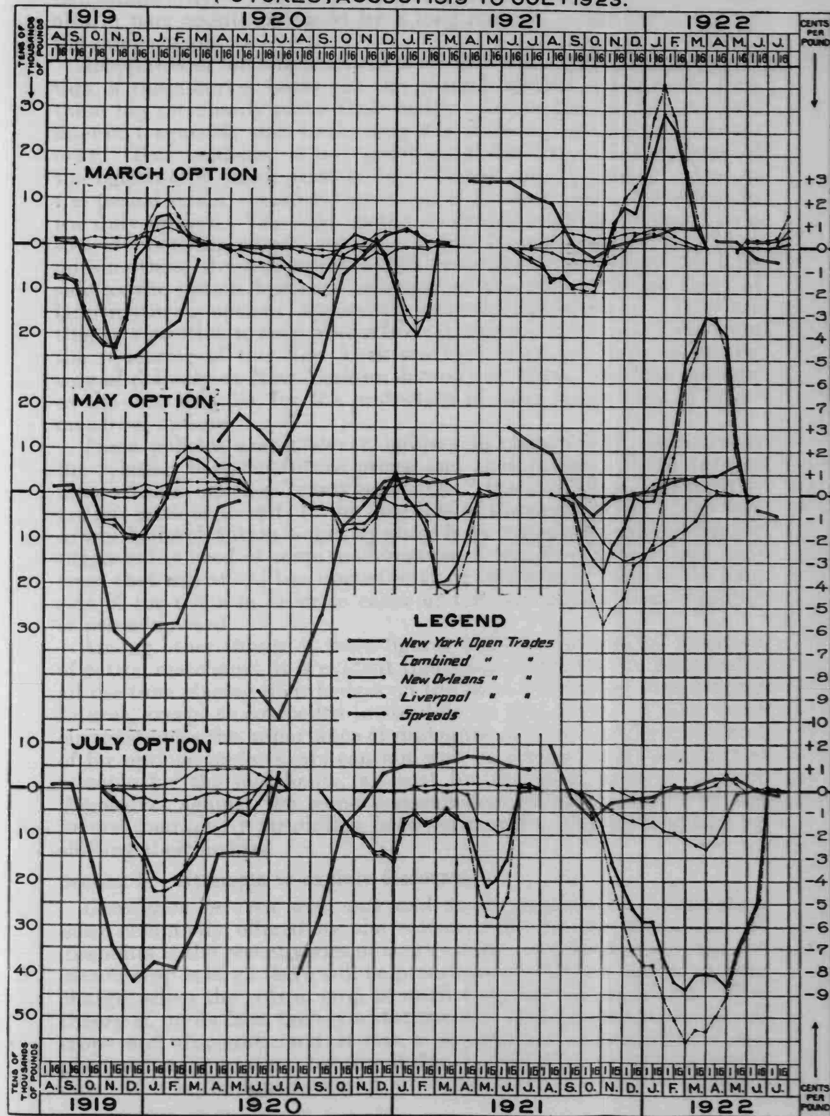
Diagram IX.B OPEN INTERESTS OF CERTAIN LARGE COTTON MERCHANTS, BY MARKETS FOR MARCH, MAY AND JULY OPTIONS ON THE 1ST. AND 16TH. OF EACH MONTH, TOGETHER WITH MONTHLY AVERAGE SPREADS BETWEEN THE TEN SOUTHERN SPOT MARKETS AND NEW YORK FUTURES, AUGUST 1919 TO JULY 1923.



Note.—The open trades should be read as of a date a half month earlier than the plotting indicates. Pounds in the left-hand scale should be read bales.

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option being used for the sold side of a straddle between this month and the months of March and May that were being traded in contemporaneously. This large open interest in New York July was also in part counterbalanced by a long interest in Liverpool during the same season.

Adaptation of hedging practices to the discount situation.—Examination of these curves bears out the general opinion of the trade that these big merchants place their hedge sales in the far options and later on frequently shift to the long side of the options as they become near. This tendency is not pronounced for the earlier options of the cotton-crop year—that is, for October and December. And in the period under consideration there is no such shift of position in the July option. The July option in general may be regarded as a sort of "between-crops" option. In the January, March, and May options these three merchants shift from the short side to the long side as the option becomes near and at the same time go short of later-maturing options, apparently to protect themselves. They are thus in a position to reap profits from premiums on the nears and from the squeezing of the New York market; or they obtain cotton by way of delivery at New York on January or March or other options, as the case may be, for the protection of their hedge sales in later-maturing options.

These policies are, however, subject to change with reference to the relation between future prices and spot prices. If the futures show what is called a "carrying charge," the merchants, apparently, are not anxious to shift to the long side of the near option. The way in which the situation is met by these large merchants very definitely suggests the need of some modification of the New York future contract that will afford less opportunity or occasion to shift to the long side of the nears in order to cause or take advantage of a crowding of prices upward.

Among other things, if these figures indicate the general situation of cotton merchants, it is evident that such merchants are practically all the time placing their hedges on the short side rather than buying futures, except as compelled to straddle for protection. Under these circumstances the importance of discounts of futures under spots and of far options under nears can not well be denied, even though it is possible for the merchants, at least for the large ones, to protect themselves against the worst consequences of this tendency of the futures market by straddling between markets and options and by shifting their hedges.

Section 5. Attempts to explain discounts.

Correlation between discounts and small crops.—The explanation most commonly offered by the cotton trade for the persistency of discounts is the recent series of short crops. It is said that when the cotton crop is large there will be premiums on the fars and a carrying charge; when the cotton crop is small there will be discounts. The theory is, on its face, merely a statement of correlation between small crops and discounts and is not a satisfactory explanation of the phenomena in question, because it does not show how the thing works out. If it is the foundation of an explanation, the causes by which

this result is produced and their mode of operation, which constitute the true explanation, are still to be described.[26]

[26] The results of a rough test of the theory above stated is shown in the following tables. The method is that of the comparison and analysis of ordinals indicating the rank of the series of crops and of discounts, respectively. The crop and spread series are each assigned ranks as first, second, third, etc., beginning with the large crop increase and the large positive spread. The 22 years covered are divided into equal parts of 11 years each, according to the distinctions indicated in the stubs of the tables. The minimum sum of ordinals possible (1 to 11) is 66, the maximum (12 to 22) is 187, and the combined sum is always 253. If there is no correlation between the size of the crops and the size of spreads the association of the higher ranks 1 to 11 of one series should be with a mixed assortment of the other series adding to substantially one-half of 253, or to 126 or 127.

The first of these tables makes a direct comparison of the spreads in terms of absolute size with the increase or decrease of the crop for each year relative to the average of the preceding five years, these increases also being taken absolutely.

TABLE 23.—*Ordinal analysis of interoption spreads for New York and New Orleans cotton futures, in relation to crop increases over the preceding five years, 1901–2 to 1922–23*

	New York			New Orleans		
	December-March spread in November	December-May spread in November	March-May spread in January	December-March spread in November	December-May spread in November	March-May spread in January
Sums of ordinals of spreads [1] for—						
The years of comparatively large crops	114.5	110	124.5	117	110	115.5
The years of comparatively small crops	138.5	143	128.5	136	143	137.5
Sums of ordinals of comparative crops for—						
The years of larger (or higher ranked) spreads [1]	123	110	120	123	117	119
The years of smaller (or lower ranked) spreads [1]	130	143	133	130	136	134

[1] Spreads are ranked as large and small in an algebraic sense, the scale passing through zero and the larger discount being given the lower rank. Large and small crops are given ranks on the basis of increases and decreases in the same way.

In fact, the years of larger crops (or increased crops) are consistently associated with somewhat smaller spreads (the future higher relative to the spot) and the years of smaller crops with the larger spreads, or with a stronger tendency to discounts on the part of the future. In one case, however, the difference is very small. The similar test made from the other end shows a like consistent association of larger positive spreads (or smaller negative spreads) with larger crops.

The next table is the same in plan as the previous one, but the spreads are reduced to relative terms, or expressed as a per cent of the price, before being ranked, and the crop increase or decrease is likewise first reduced to per cent. The reason for this is obvious. A 1-cent spread on 12-cent cotton is practically larger than a 1-cent spread on 25-cent cotton.

TABLE 24.—*Ordinal analysis of interoption spreads for New York and New Orleans cotton futures in terms of per cent of prices, in relation to the size of the crops in terms of per cent of the preceding five-year averages, 1901–2 to 1922–23*

	New York			New Orleans		
	December-March spread in November	December-May spread in November	March-May spread in January	December-March spread in November	December-May spread in November	March-May spread in January
Sums of ordinals of spreads [1] for—						
The years of comparatively large crops	113	109	108	106	105	109.5
The years of comparatively small crops	140	144	145	147	148	143.5
Sums of ordinals of comparative crops for—						
The years of the larger (or higher ranked) spreads [1]	122	110	117	118	117	119
The years of the smaller (or lower ranked) spreads [1]	131	143	136	135	136	134

[1] Spreads are ranked as large and small in an algebraic sense, the scale passing through zero and the larger discount being given the lower rank. Large and small crops are given ranks on the basis of increases and decreases in the same way.

The results shown in this table are the same in character as in the preceding table, but the greater accuracy of the method increases the evidence of a connection between large crops and positive spreads. That

Conclusions from the statistical data in the accompanying footnote bear out the opinion of the cotton trade that there is a degree of correlation between the comparative size of crops and the tendency to discounts, though the degree of correlation is not great. It follows almost inevitably that the discounts on fars are also correlated with high prices for actual cotton.

It is noteworthy that a similar test as to degree of correlation between size of crop and discounts or small positive spreads in the case of Chicago grain futures for 28 years prior to 1917 shows results for wheat futures similar to those for cotton futures, but indifferent or inconsistent results for corn and oats futures. Speculation in wheat was undoubtedly much greater than in the other two grains. Discounts are less frequent in grain than in cotton, although there is the same tendency of the futures market to exhibit what may be called a downward bias, perhaps not quite so strong in the case of grain as in cotton. The bias in question seldom produces actual discounts in the fall of the year as between the near option and the far option for grain as large as those for cotton; for example, the Chicago May future was below the December future in October in only four years out of 28 for which this wheat spread was computed.[27]

Relations between hedges, mill buying, and speculative trades as factors.—The indicated connection between discounts on the futures and comparatively short crops may be attributed largely, if not mainly, to the volume and character of hedges placed in futures by the cotton trade and to the complementary relation, or lack of such relation, of speculative trading to hedging and related uses of the futures market. Demand and supply conditions in the spot markets must be considered in connection with such factors.

The phase of the matter that can best be considered first is the effect of abundant crops upon the spot cotton trade, and, through hedges placed under such conditions, upon the futures. If the crop is large, there is apt to be prompt marketing of much of it with resulting abundant supplies in the hands of merchants, since spinners are probably not in a hurry to buy under such circumstances. Cotton bought by the merchants tends to accumulate on their hands, and they are likely to seek protection by making hedge sales of futures in larger than the normal volume.

Hedging sales by merchants, other things equal, are normally placed in the nearer futures. Terminal grain merchants, for example, generally prefer to hedge in the near futures, partly because the remote options are comparatively inactive and partly because the price of the nears more directly reflects cash grain prices. The spot future spread is, of course, always a controlling consideration, but if there is a discount on the future it tends to narrow, to the discomfit-

there is a considerable degree of correlation between the size of cotton crops and the character of interoption spreads may be regarded as an established fact.

The spreads considered in both these tables relate to options both of which mature within the same crop year, and are thus taken as of a time when the carrying charge should be operative. Only United States crops are considered. In view of the great extent to which American cotton is exported a stronger degree of correlation might be found if the test were made with world crops. But the immediate problem does not call for such further analysis. It would perhaps be more to the point to take account of carryovers as an element in the supply and of data of the average quality of the American crop as possibly throwing some additional light on the question of discounts, but this appears to be an unnecessary refinement for present purposes.

[27] In the analysis of spreads considered in this subsection the spreads are ranged in the order of size (the scale extending through zero) and the results are not affected by the comparatively accidental fact that the spread may show a negative sign. The years referred to were 1888 to 1916, with 1900 missing.

ure of the merchant, as the delivery month is approached. True, it is generally considered dangerous to hedge in the nears of New York cotton futures, because of the facilities for squeezing that market. But this situation does not alter the general rules or principles of hedging, though it evidently impairs the serviceability of the New York futures. Even this danger is much lessened, however, when the crop is abundant, and New York has a stock of actual cotton.

Pressure of an unusually large volume of hedge sales on the nearer options tends to cause a depression of their price, not only as compared with spots, but also as compared with later options. The spot prices naturally first receive the pressure of heavy marketings. If the mills do not buy readily, the pressure is transmitted to the nearer futures, but with a lag, so the spots are below the futures. The nears then tend to sag in comparison with the fars. Thus a carrying-charge spread is apt to be created all the way along.[28]

The large supply tends to scare away the bull speculators, until when prices have gone extremely low, perhaps "below cost of production," they will be likely to buy "for the long pull." But they will tend to buy the fars rather than the nears, because they do not want actual cotton, and when stocks are large they do not dare to hold the nears, even at a lower price. The bulls are generally slow to help a low-price market, but when they finally do come in they tend to put the fars at a premium, or on a carrying-charge basis. Their trades are not a direct complement to the hedges of the merchants.

Moreover, when there is an abundant crop the spinners are said to hold off from buying and the cotton farmers are perhaps somewhat panicky as to prices, so that the cotton comes on the market freely, and is offered at prices lower than it otherwise would be.

On the other hand, when the crop is short the merchants do not generally receive cotton fast enough to get into an "overbought" condition,[29] requiring the use of the hedge sale. On the contrary, they are likely to be "oversold," and therefore to be on the long side of the futures market. There is at such times an absence of hedging pressure on futures in general and on the nearer options in particular. Forward purchases on call by mills, anxious to insure their supply, may in fact cause an early accumulation of prospective buying of futures which causes actual buying later on, and especially toward the close of the option, thus helping to push the nears to a premium over the fars. Indeed, as just noted, the merchants' hedges are likely to be purchases.

Although the short crop situation is encouraging to outside speculators who come into the market on the bull side, as prices advance the volume and proportion of short selling increases. Such short selling is mainly "professional." The professional speculators see the technical advantage of being long of the nears, the scarcity of spot cotton suggesting squeezes. But their general tendency will be to sell the fars, and they would perhaps more than counterbalance the undue optimism of the outside bulls with regard to the fars. This element may put down the fars, though not the nears, under

[28] But when the interoption spread has widened to something approaching a carrying-charge basis it will pay the merchants to shift their hedges forward.

[29] "Overbought" in the language of cotton merchants means an excess of cotton held over cotton sold for forward delivery; the opposite condition is called "oversold."

such conditions. Since the short hedgers also may be afraid of the nears, at least at New York, the speculators are again largely operating in a way that exaggerates instead of balancing the pushes and pulls upon the market caused by hedging operations.

In offering an explanation of the connection between short crops and discounts, a New York cotton broker emphasizes particularly the buying practices of cotton spinners. If there is a short crop, the spinners are anxious to buy, not only to obtain cotton enough with which to run their mills from month to month, but also in order to insure themselves as regards quality, the qualities of cotton more in demand and in particular the specific quality that a particular spinner wants being more easily found during the early months of the crop year, when the cotton is being marketed in large volume, than later on when the particular qualities may be almost exhausted. This early and eager buying by spinners may be made through call contracts, the price being fixed later in the year. But the merchant begins to accumulate the cotton immediately. Or, in some cases, the spinners may buy the kind of spot cotton they want and hold it unhedged.

It is said that under short-crop conditions, when the spinner is anxious to buy, the grower will hold off from selling, expecting even higher prices in the latter part of the year. So far as these two elements in the situation meet each other, and even apart from an exact coincidence, the general situation means the bidding up of spots so that they tend to go to a premium over the futures.

The special importance of the situation described, as it affects New York futures (and by reflection New Orleans futures also) is in relation to the abnormalities involved in the delivery of cotton on New York contracts. The cotton is not there and does not go there, except for delivery on futures, or under through shipment. Because he can not deliver on New York futures in the normal course of trade, the cotton merchant tries to keep his hedges out of the nears. If he could safely place his hedges in the nears, a normal relationship between the prices of nears and fars would be more likely to hold. The bull speculator, who is merely trying to obtain profits from an upward movement of prices, should expect this to work out better in the fars than in the nears. The bull speculator who prefers the nears may be suspected of trying to make money out of technical conditions instead of out of normal price changes. This opportunity to profit by squeezes should be taken away from him and from any others that may desire so to exploit the market. The important relation of southern warehouse delivery to this situation is indicated by the expressed desire of numerous southern merchants that this facility be provided so as to enable the cotton merchants to drive the bull speculator out of the nears.[30] The speculators (as distinguished from the merchants) who are able to take advantage of squeezes, it should be noted, are not the outsider "long-turn" bulls, but the larger professional operators. Delivery in the South might be very effective against this latter class. It is believed that southern delivery would greatly modify present conditions in the direction of providing a much better hedge market.

[30] Theodore Marcus, Hearings, Pt. II, p 439. Southern warehouse delivery "will at least have the effect of instilling that fear (that he is going to get cotton) into the speculator and keep him out of advancing the near position all the time."

Call buying as a factor.—The purpose of considering buyer's call contracts [31] in the present connection is merely to show their relation to the behavior and efficiency of the New York cotton futures market. But there is occasion for some reference to the nature of the primary use the buyer's call contract makes of the futures market.

The buyer's call contract as such does not involve hedging. In this case the primary use of the futures market is for price determination, instead of for hedging. The merchant does not need to hedge until he buys cotton, and that would be the occasion for a hedge sale equally in any other case.[32] Many spinners, on the other hand, seldom employ the futures market for hedging and the buyer's call contract largely emancipates them from such a need.

The spinner wants a supply of cotton of a specified quality flowing to his mill at the rate of so many bales per month. He wants to contract for such a flow of cotton for perhaps six months ahead. But the spinner can not afford to buy his cotton at a fixed price before he knows the price he will obtain for his goods. Moreover, the sale may be made before the general level of cotton prices is to some degree readjusted to conform to the size of the crop from which the cotton sold will mainly come. The absolute price is therefore left to be determined, for example, by the New York futures market at such time, within the life of the specified option, as the miller may fix. The contract specifies so many points over (or sometimes under) the New York futures market. The "points over" are largely explained as due to merchant's profit, freight, and a specific even-running quality in the cotton.

The New York future in question is of course a particular option, say December. The spinner is not obliged to call at the time when he sells goods, though he would ordinarily be supposed to do so. Until he sells the goods there is no occasion for a hedge. All that has happened is a sale of cotton for forward delivery at a price to be determined by the futures market on the buyer's call, or on his order to "price."

Conceivably the call contract might so work that there would be no connection between it and hedging practices, although the merchant without the opportunity to use futures for hedging could scarcely afford to give the spinner the option as to the time of the call except at a stiff premium. It is true that the merchant (or his broker) is supposed to buy the future upon instructions for price fixation by the spinner. This will naturally result from his having bought cotton to meet the contract, which he hedges by a sale of futures. Hence in a description of call buying methods it is likely to be assumed that the merchant will have the future sold "at the spinner's risk." But the merchant may, for his own good reasons, have a different option (a relatively weak option) sold instead of the one upon which the call contract is based. He may, for example, have May sold against a December call; the hedge may have originally been placed in December and transferred to May. Under such circumstances, the broker is ordered to "buy May and quote December." The purchase serves to close the merchant's hedge and the quotation to price the spinner's cotton. The price-determining

[31] Described in Ch. II, sec. 10.

[32] The use of a straddle in connection with the buyer's call contract is a complication that need not be taken into account here.

function of the futures market in relation to the call contract is especially clear in this case. Such practice is not unfair to the spinner. When the hedge sale is placed, or how it is handled, is a concern of the merchant. The only concern of the spinner is the fair fixation of the price, and the mere quoting of the market at the time of the call may mean a better price than one obtained on an actual purchase, which, if large, might put the market against the buyer.

It is to be assumed that the spinner will not call the price soon after entering upon his buyer's call contract. During the time that passes between the making of the contract and the price fixation there develops in fact, though not of logical necessity, a connection between the merchant's hedging use of the futures and the buyer's call contract. If the merchant has not yet purchased the cotton to supply the spinner, the latter's pricing gives the merchant an open future purchase for a hedge; if he has already bought (and perhaps shipped) the cotton, the pricing closes his hedge sale.[32] If the futures market were not available for hedging purposes, it is true, the merchant could scarcely afford to sell on buyer's call, unless he could himself buy on such a call. But this connection between the call contract and hedging is mainly an illustration of general business interrelations. Contracts for forward delivery are common in lines of business where there are no futures. Until the price on a call contract is fixed, there is not the need of hedging that there is on a contract for forward delivery at a fixed price, the nature of the sale on buyer's call being such as to require no protection against change in the price level of cotton for either merchant or manufacturer until the price is fixed.

At most, the element of necessary connection consists in the use of a futures market, rather than some large spot market, as the means of price determination, because it will be convenient for the hedging merchant to have the price so fixed. The manufacturer may buy his supply of coal for delivery from month to month at prices "prevailing" at the time of delivery, in which case there is no question of hedging. The continuous operation of an organized exchange merely affords an added, and on the whole a better facility for such price determination in relation to provision for forward delivery, and especially facilitates giving the spinner the option as to the time of the call.

Price fixation on call contracts is frequently said to occur at the last moment.[33] It is in this way that spinners' fixation comes in as a factor in the behavior of the market—a factor possibly of equal importance with the distribution of the hedge sales of merchants. Buyer's call contracts are generally based on the options from December to May, inclusive. Complaints of delayed pricing are a commonplace of the cotton trade. The spinners, on the other hand, complain of the prices being abnormally run up against them, or, in other words, of being mulcted by squeezes. How the spreads are skewed by this and other factors has been noted in section 3 of this chapter. How the large cotton merchants protect themselves by straddling and by shifting to the long side of the nears has been

[32] As before noted, the possible use of the straddle in such a connection by the merchant may be disregarded.

[33] Indeed some merchants have found it desirable to insert clauses in call contracts requiring the fixing of the price not later than the beginning of the delivery period on the future, and all try to persuade the spinner not to postpone his buying too long.

discussed in section 4. It is worth noting that margin requirements for straddles are less than for unbalanced open trades, so that the cost of the use of the straddle between options facilitates its employment by cotton hedgers.

The extent of call buying will tend to be increased by a short crop, because the mills will be more anxious under such circumstances to secure the qualities they particularly want. This means the bidding up of spots by the merchants, who tend, under such conditions as have recently prevailed, to place their hedge sales in the fars. But the mills are prone to fix prices and cause the buying of the nears late in the life of the option; and if they have bought relatively much spot cotton for forward delivery, the longer they will postpone a large part of their price fixation and the more they will cause the bidding up of the nears. Here is more of the mechanism that specifically tends to distort the interoption spread. This phase of the situation is extremely costly to the manufacturers of cotton.

Other possible explanatory factors.—A possible explanation of the fars being so often at a discount below the nears of the same crop year is that the mass of speculators may judge prices largely with reference merely to what the average price has been in recent times. If the price goes up beyond a certain point there are some speculators who will compare this price with the average of previous years and trade on the theory that the price is going to come back to the average, with little regard to the size of the crop in relation to the needs of consumers, notwithstanding the fact that the latter condition might be expected to result in a price equilibrium for a short crop at a high level.

Certainly there are a good many speculators who buy cotton futures and grain futures when the price is below what they think it ought to be, whose judgment of what it ought to be is mainly a matter of comparison with what the price has been. But it is not clear that most speculators will so readily sell short, or in effect make the market predict lower prices and cause discounts on the fars, merely because the price is high. Amateur speculators, at least, appear to buy more readily when the price is high and when there has been a considerable advance in price. But the weight of short selling, which is mainly an affair of professional speculators, is said by cotton future brokers greatly to increase when crops are short and prices high. On the whole, whatever element of truth this possible explanation of the working of the futures market contains can easily be incorporated into the theory of the preceding subsections.

Another possible theory of discounts associates them with the fact that it is impossible to change the grade of cotton by mixing, as is the case in grain. The bale has to be taken as it is by the merchant, and its quality or its mixture of qualities left unchanged until it is broken up by the spinner. The spinner or other person who takes cotton on future contracts, therefore, is not likely to get the kind of cotton that he wants or can use. Even if it is a merchant who takes delivery, he has to re-sort the cotton. This explanation as to the effect of the absence of mixing on discounts is not different in kind from the grain-trade explanation as to why mixing causes discounts.

It is presumable that grain delivered on the future contract will be mixed to the bottom of the deliverable grade; hence the cash handler of grain does not want to pay so much for grain received on future contracts as he would for country-run grain of the same grade. No matter which way the mixing theory works (whether it can or can not be done), it seems to offer in part an explanation for discounts on the spot commodity in the delivery month, rather than for the more important phenomenon of discounts much ahead of the delivery month. It is presumable that such discounts in the delivery month will be reflected back without change in size through the earlier months of trading. Such an explanation does not directly affect the comparison of options by way of interoption spreads, since the May option, for example, will be affected to the same extent as the December option as regards their relation to the spot price, but the difference between the December price and the May price will be substantially unaffected. The mixing theory does not explain discounts on the far options and is inadequate to explain spot-future discounts.[34]

Section 6. Concluding considerations regarding southern delivery on New York futures.

Certain general aspects of the problem of southern delivery on New York futures demand consideration in terms of quantitative relations, even though statistical data for answers to the questions raised are not at hand, or perhaps not obtainable. In part they involve consideration of the probable effects of a southern delivery rule. A final conclusion as regards southern delivery on New York futures, moreover, may depend largely on the recognition of the failure of the New York cotton futures market to meet certain fundamental requirements of efficiency as a hedging facility and a factor in cotton prices.

New Orleans futures as a test of southern delivery.—In relation to the question of southern warehouse delivery, it is important to remember that New Orleans is a market now having southern delivery. It is, therefore, probable that some of the effects to be expected from southern warehouse delivery on New York contracts can be read in the characteristics of the New Orleans market as compared with those of the New York market as futures are at present traded in at these two places. But there is a great deal of straddling between New Orleans and New York, which tends to keep the prices of the two in line. The two markets are thus tied together. This being so, the effect of delivery in the South as read in existing differences between the two markets must naturally appear much weakened and diluted. Moreover, the New Orleans futures market is considerably less important than the New York futures market as indicated by

[34] The discounts on the far options within the crop year mean that the options later in the crop year show a lower price than the earlier ones. If the character of deliveries in the fall and in the spring is different in such a way that the deliveries that will be made later in the year are poorer in quality or for any reason less in demand than those that will be made earlier in the year, then this situation can be made the basis of an explanation of discounts on the fars. It can also serve to explain in part the difference between short-crop and large-crop years in this respect. When the crop is small the cotton is likely to be well picked over early in the year, and what remains is less satisfactory from the point of view of the spinner than what can be had earlier. When the crop is abundant, on the other hand, good quality in general, and any specific quality, will probably be on hand in sufficient quantity, not only to supply all demands in the fall, but to leave large quantities to be held for the period of shorter supplies (but in this case not short supplies) in the spring. In this connection it should be noted that cotton merchants use the futures market as a means of disposing of what they call "overs." Cotton that is found to be commercially less desirable, although not necessarily intrinsically undesirable, may be delivered on futures in progressively larger amounts or proportions as the year advances and as the character of the cotton as overs becomes more definite. If this is so the later options might show some discount because of the expectation of traders that there will be some degree of concentration of deliveries of the less desired cotton toward the close of the year, and perhaps on the July option. This suggestion is offered merely tentatively, but the situation indicated may be a minor factor in bringing about the peculiarities of future prices under consideration.

volume of trading, hence it is more susceptible to the influence of New York.

It has been noted that New Orleans shows a less strong tendency to discounts than does New York. It may be inferred that the adoption of southern warehouse delivery on New York future contracts would not only tend largely to cure the discounts on fars as compared with nears for the New York market, but might have a wholesome effect on the discounts on fars at New Orleans, since probably these are now largely a reflection of controlling conditions in the New York market. At any rate, the conclusion seems warranted that the adoption of southern warehouse delivery should improve the discount situation considerably, certainly at New York, and possibly also at New Orleans.

As regards squeezes, it appears that these are not absent at New Orleans, but they are much more important at New York, that is, they are more frequent and are pushed to a further extreme. Apparently they are not now pushed to the extreme which has sometimes been observed in the case of grain futures where attempts have been made to corner the market. It appears that those who squeeze the New York cotton market nowadays are more moderate in their exactions. But the small merchant, who is not operating on a large enough scale to be able to do any squeezing himself, is not consoled by the moderation of the manipulator who takes only a comparatively small amount per bale out of his pocket through his hedges. It is true, also, that squeezing the market is one way of getting something out of spinners who have bought cotton on buyer's call and delayed the fixing of the price through the buying of the future until delivery is close at hand, so that they pay an unduly high price for their cotton, because the future is so bid up by purchases on behalf of other spinners who have similarly delayed their pricing as well as by the covering of hedge sellers and shorts. This assumes that the merchant who has sold the spinner on buyer's call is not himself short on the squeezed option.

It is denied by some members of the New York Cotton Exchange that there is ever any manipulation of the New York cotton market. The more reasonable position, however, is likely to take the form of a statement that the market is almost never squeezed beyond the "commercial value" of cotton. When an attempt is made to put this statement into concrete form it appears to mean that the price of the New York cotton future is not pushed above the price of spot cotton in the South by more than about 70 points (though on the face of the facts as to prices no such limit is effective), and that, on the other hand, the price of the New York future does not drop below the value of cotton in the port of New York for export and consumption purposes. Such a statement, however, leaves a leeway of, for example, 100 points within which the manipulator who is in position to squeeze the market may operate.[35] One hundred points is $5 a bale, and, although this is a moderate amount as compared with what the true manipulator by way of corners likes to take out of the short, it is very considerable in comparison with the trade margins taken by the spot cotton merchant. The possibility of

[35] The cotton in New York is said ordinarily to be worth no more for export than in a southern port. Among other things, the mixed character of the lot may affect its comparative value. But the 100 points is merely illustrative. It does not appear that the spread of New York futures above southern spots is limited to 70 points or to twice that, but the significance of the 10 spot market average may vary.

this artificiality in the price is not a mere trifle and demands remedial measures. The fact that there are also squeezes at New Orleans, as well as at New York, means that Southern delivery will not necessarily completely cure this evil. But it ought to improve the situation.

Squeezes are possible because of difficulties in making delivery. The hedge seller can deliver more easily in the South. With southern delivery on New York contracts, not only would he deliver in the South, where the cotton is available, but delivery would be provided for at more than one point, some one of which is certain to be nearer to most merchants, not only than New York, but also than New Orleans. The presumption is that, if the situation with regard to squeezes is at all better at New Orleans than at New York at present, this advantage would be multiplied through the adoption, not merely of delivery in the South, but of delivery at several points in the South.

The narrower the market, the greater the facility in squeezing it. New Orleans is a narrower market than New York, yet it is not squeezed as much as New York. This may be attributed to the fact that deliveries at New Orleans are made where, in the ordinary course of trade, there is plenty of cotton. The effect of a direct comparison of New York with New Orleans as regards squeezes, however, is now somewhat blunted, not only by the tendency of New Orleans to follow New York, but also by the fact that New Orleans is, in comparison with New York, a narrow market.

Relation of southern delivery to spot-cotton prices.—It is noted just above that the multiplicity of points at which delivery might be effected under any proposed southern warehouse scheme for New York future contracts facilitates delivery. This is, of course, an extension of the privileges held by the seller and a broadening of the effects that are to be expected from the seller's option features of the future contract. This is not the only effect of delivery at a number of points, however. The effect on the comparative price of spots and futures should be taken into consideration.

It can scarcely be doubted that the tendency of southern warehouse delivery, as such, will be to lower the price of New York futures somewhat in comparison with southern spot prices.[36] It is possible that the lowering of the future price may not be so great as is ordinarily anticipated, because the New York future at the present time does not show the freight difference from southern spot prices ordinarily, but instead, as regards conditions prior to the delivery month, is often at about the level of the prices of spot cotton in the South, if not below the latter. The New York future price is, in general, above the future price at New Orleans, but not always so.

Hence the fact that southern delivery would make the New York future contract represent the price of cotton in the South might not involve so much of a lowering of the contract price as would ordinarily be supposed. It would not mean subtracting from the contract price the freight difference between the South and New York, because the freight difference is not always in the price of the New York future as at present traded in. Much of the possible evils that are feared from a southern warehouse New York future contract are thus not adequately grounded in fact. Of course, a southern price

[36] This paragraph assumes for the purpose of the argument that southern deliveries will be made without a differential.

will in general be lower than a New York price for cotton, and the New York future contract price will be a southern price under southern warehouse delivery. From the point of view of parity with spot cotton, however, this relation might, after allowance is made for freight charges, be considerably improved by frankly providing for a southern price on New York contracts.[37] The effect of the factors causing discounts on futures and on fars might be much reduced by southern delivery.

The specific effect of multiplicity of delivery points upon the price of the New York future, however, remains to be considered. This is the added seller's option feature in the proposed contract. Doubtless it would tend to lower the price. The price of the New York future would tend to be the price in the lowest of the southern markets at which delivery on New York contracts could be made. But it has already been noted that the variation in the spread, rather than the average size of the spread or its direction as such, is what is important for the hedger.

The producer of cotton, however, may form his judgment as to what cotton is worth on the basis of the future price, especially in view of the fact that so much cotton is bought and sold at a price on or off the future. Would a lower price of the future, therefore, mean a lower price for spot cotton? It should not, at least after business had become adjusted to the new level of the future price. It might even be true that no period of adjustment would be necessary, since the producer ought not to expect that a southern price will be as high as a New York price, and if he makes allowance for a normal difference between a New York price and a southern price in figuring on the basis of the new future contract, he would actually benefit by the failure of the southern price to include the freight difference, instead of being injured by it. For example, let it be assumed that under present conditions the producer judges prices by reference to the New York future and is willing to sell for 75 points below the New York future, which is 25 cents, or for 24.25. Then suppose the New York future under southern delivery becomes 24.50, the producer being still guided by New York. He will, if he allows 70 points for the freight difference, then be willing to sell at 75 points under 24.50 plus 0.70 (or 75 points under 25.20), that is, at 24.45. This is 20 points above what he would take under the condition first assumed, with a New York price on New York futures. This illustration is of course merely hypothetical, and does not take account of the buyer's share in price making.

But in order to be on the safe side it is believed that the effect of Southern warehouse delivery on price levels should be counteracted by some means, preferably a method other than a differential (the latter being practicable only with deliveries allowed at New York). There is something in the argument that the grower of cotton will fail to understand that, under southern warehouse delivery, the price on a New York contract will be a southern and not a New York price. Moreover, there are some who will reason that, if the future price is below the spot price, it is necessarily pulling the spot price down. Therefore, the adoption of southern warehouse delivery without the equivalent of a differential (though not necessarily equal to the present freight difference) might have an effect on the price which would cause dissatisfaction and disturb the cotton trade generally. Obviously, however, the differential is impracticable except with deliveries permitted at New York.

[37] For the reasons mentioned in second paragraph below.

Regardless of whether New York remains a delivery point under the system or not, it is especially desirable that provisions of the southern-delivery plan have reference in part to counteracting the possible depressing effect of multiplicity of delivery points upon the New York future price. Some such features of the contract are suggested in the chapter on deliverable grades. The requirement of delivery in contiguous-grade lots would be an important means of raising the level of futures as compared with spots, as well as probably desirable on general grounds as making lots delivered on futures more merchantable.[38] Its distinctive advantages are enhanced by association with southern delivery. The granting of 5 or 10 days' free storage (of course to be prepaid by the seller of the future who makes delivery) has also been suggested as having similar desirable possibilities.

An important means of limiting the effect of multiple delivery points upon price (through the New York future) is the abolition of deliveries on futures at New York, though this of course will result in a somewhat lower southern price than if New York remained a delivery point with a differential. The southern ports do not differ much from each other as regards spot prices and other relevant particulars. New York is not in the same class and it might, especially toward the close of the crop year, be used as a place to dump cotton, with a depressive, if not a manipulative, effect upon future prices. The southern merchant who might be willing to take delivery at any southern port could not so readily adjust his plans to the possibility of delivery at New York. The abolition of delivery on futures at New York would remove from the number of delivery points the one affording most opportunity for injurious exploitation of the option of delivery at more than one point.

New York not a good delivery point for a cotton-futures market.—It is fundamental that the delivery point for a futures market be also a spot market of such importance that stocks of the commodity dealt in by way of futures be always available so that delivery can be made on future contracts without the seller being compelled to go to extraordinary expense, either to obtain the commodity for delivery or to deliver the commodity he already holds under a hedge sale. A delivery point (or points) for a futures market should, therefore, be a large spot market and should also be located in the natural line of transportation of the actual commodity between producers and consumers.

Although there was a time when New York conformed to these requirements, that is no longer the situation. Cotton intended for the New England mills, even, does not go by way of New York to any considerable extent. Cotton for export does not normally go to New York for shipment, although some cotton is exported through New York. Even with the stimulus given by the futures market to the bringing of cotton to New York out of its natural course, the quantity of cotton on hand in New York has frequently been ridiculously small. Altogether, New York is a very poor point at which the translation of a future contract into actual cotton can be effected

[38] See Ch. VII, sec. 7ff.

without an accompaniment of abnormal and artificial price conditions, and, even if there are no considerable price disturbances, there is economic loss involved. If New York has certain advantages which make it a good point for a futures market, and if the actual delivery on New York contracts can be provided for at some one or more actual cotton markets, the solution of the problem of taking advantage of whatever facilities, financial and other, New York offers, would seem to be southern warehouse delivery.

The distance from New York of the warehouses at which delivery would be made is not a peculiarity that in itself argues against the plan. A Winnipeg wheat futures market is operated with its warehouses and all deliveries several hundred miles away from the trading point.[39] If there were some dominant southern spot market through which most of the cotton raised in the South might easily go on its way to consumers, there ought to be no question about the immediate adoption of this as a point of delivery, and the one point of delivery, on New York future contracts. There is, however, no such market.

The facilitating of deliveries upon future contracts and the more normal connection between spot and future prices thus to be brought about are the reasons for southern warehouse delivery on New York contracts. Conditions should be made such that the merchants can by their deliveries defeat attempts to squeeze the market. This will tend to check premiums on nears and correlative discounts on the fars. The adoption of southern warehouse delivery may be expected to make it more practicable for the hedge seller to use the near options, if he so desires, thus restoring the premium on fars and facilitating the process of hedging and the legitimate use of the cotton-futures market.

Southern delivery is not suggested as a cure-all for peculiar or unsatisfactory behavior of the futures market. There will still be discounts on occasion. It is believed, however, that the working of the New York cotton-futures market will be much improved by putting an end to some of the artificialities and technicalities of future trading as at present conducted there.

However important the price level of New York futures may be for the producer of cotton—and it is easy to exaggerate such importance, since at worst the "basis" is an elastic and adjustable intervening link—it is not reasonable to suppose that the mere "jacking up" of the New York futures by artificial means will help the producer. It is equally unreasonable to suppose that the elimination of artificialities in the situation that may sometimes enhance the New York future price will have a permanently disadvantageous effect on prices received by the producer. Under a system of future trading, all legitimate trade interests are served by having an unobstructed channel of interchange and connection between futures and spots. It is worth noting, moreover, that the adoption of southern deliveries is quite analogous to the previous adoption of southern commercial differences for the settlement of New York future contracts when actual cotton is delivered, and the need in each case is

[39] In Vol. II of its report on methods and operations of grain exporters, the commission recommends that provision be made for the delivery, on occasion, of grain at other important markets in satisfaction of Chicago future contracts.

due fundamentally to the fact that New York does not have the position or the facilities of a spot-cotton market.

The statistics of prices at New York and New Orleans indicate that New York future prices are frequently of an artificial character, and a futures market based upon artificial situations and technical conditions is not one which can be claimed to be performing the best possible service. The New York futures contract should either be mended so as to relate the price more definitely to spot cotton, or it should possibly be put an end to altogether.

CHAPTER X

CONCLUSIONS AND RECOMMENDATIONS

In an industry or business so large and covering so wide a territory as does the cotton business, it is only to be expected that occasionally there would be found intimations that competition was restricted in one way or another, both in the buying and in the selling of cotton. The commission, however, has been unable, after searching inquiry, to obtain proof of a single instance where lack of competition was established in the buying of cotton.

In selling cotton much the same situation in respect to competition is found. Assertions were made that there were agreements and combinations in restraint of trade in selling cotton. Careful inquiry does not substantiate this, except in one instance.

Letters were found which very strongly indicate that an attempt was made to bring about an agreement or understanding with regard to selling basis to southern mills. This attempt directly concerns Anderson, Clayton & Co. and George H. McFadden & Bro., and possibly Harriss, Irby & Vose. Representatives of the first two firms above mentioned denied that there was ever any such agreement or understanding. It would appear, however, despite these denials, that attempts were made in 1922 to bring about such an agreement.

There seems to be developing a tendency toward concentration of the spot-cotton business in a few hands, and the possible danger from this and further concentration can not be too strongly emphasized.

Charges were also made to the commission that certain large firms work together in their futures operations. This, it was claimed, was detrimental to the trade. The commission has obtained no proof that these concerns have "pooled" their interest in the futures market.

An examination of many of the various proposals which have been made for the revision of the grades deliverable on contract leads the commission to the conclusion that the only one which promises desirable results is the three-contiguous-grade contract, providing that the delivery on each contract shall be composed of not more than three adjacent or contiguous grades, which adjacent grades may be any of those now deliverable. The commission does not recommend that this form of contract should be employed unless southern warehouse delivery is also adopted. Otherwise, any change in grades deliverable on contract is believed to be of dubious value. The commission believes that the contiguous-grade contract would prove to be a valuable adjunct of southern deliveries (1) by offsetting in part the decreased value of the contract arising from the additional option given to the seller of contracts as to place of delivery; (2) by counteracting in part the depressing effect on future prices, of deliveries of varying grades on each contract, which tends to be

emphasized by the number of delivery points; (3) by making it more practicable for the smaller merchant to take delivery of cotton on future contracts, thus reducing the tendency to run from delivery notices; and (4) by improving, through the increased merchantability of the delivery, the relationship of spots and futures, and hence the serviceability of the future market for hedging.

Accuracy and definiteness in quoting the spot market is desirable for two reasons: (1) True commercial differences for use in the settlement of the future contract make for a more stable relation between spot and future prices and therefore for a better hedging market; and (2) both the producer and the merchant, as well as the manufacturer, are entitled to know what the prevailing price of cotton is, as shown by actual sales, so far as these have been made, not only for middling but for all other grades.

To the end of establishing accurate spot quotations and correct differences, therefore, it is recommended: (1) That there be substantial uniformity of procedure in determining quotations and differences; (2) that all pertinent price information, such as quantity, price, grade, and staple, be reported for every spot sale and be made the basis of spot quotations and differences by mathematical computations; (3) that this information be verified by a committee of competent classers, preferably not engaged in the trade; and (4) that, in view of the disparity in volume of sales among the several markets, the feasibility of taking a weighted average of their differences instead of a simple average, for use in the settlement of the future contract, should be considered.

The commission believes that some form of southern delivery on New York contracts should be adopted and recommends that Congress enact legislation to that end. There are several important reasons for this conclusion.

The strongest claim for a futures market is that it furnishes a safe hedge for cotton merchants. This the New York futures market does not always do. In fact, it is frequently manipulated, its prices being forced out of line. It is a truism to say that for some years past the New York futures market has failed to perform satisfactorily its chief function.

There are valid objections to abolishing the New York futures market. New York has an important advantage over any other city in the United States; it is the financial and trading center of the world. It is stated by some cotton merchants that New Orleans has a better contract than New York in that delivery takes place at a large spot market, but the volume of trading in futures at New York is much greater than that at New Orleans.

The commission believes the better features of the New York futures market can be maintained and much of the ground for criticism eliminated by the adoption of some system of southern warehouse deliveries on New York contracts. Southern deliveries will do much to eliminate manipulation and to maintain New York future prices in their proper relation to spot prices.

The commission recommends in connection with southern deliveries, (1) that the number of southern delivery points selected for New York deliveries be few, and at least for the present be only

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Atlantic and Gulf ports; (2) that the delivery, inspection, and certification of cotton at southern ports shall be under rigid Government supervision and that deliveries shall be only from warehouses licensed under the Federal warehouse act; (3) that the tender of cotton on futures at New York be no longer permitted.

The commission believes that the public is entitled to prompt information as to the volume of trading in cotton futures, and as to the total open interest by options. Such figures should be published regularly. The open trades should be those open on the books of members and not merely those open at the clearing house.

The commission recommends that consideration be given to a reduction in the size of the contract delivery (100 bales). The value of the present contract with cotton at 20 to 30 cents seems entirely out of proportion with the value of the deliveries on future contracts for wheat, corn, and oats. A reduction in the size of the delivery would render the contract more merchantable and, at the same time, would permit closer hedging. From the standpoint of ease of delivery, as well as that of marketing generally, it is believed that it might be desirable that the contract should provide for a delivery approximating minimum carload requirements.

The commission believes that a prohibitive tax on cotton puts and calls like that now in force for grain puts and calls should be enacted, thus contributing to the elimination of such trading, which is now prohibited by the rules of both of the cotton exchanges.

APPENDICES

Appendix 1

FORM OF FUTURE CONTRACT ON THE NEW YORK COTTON EXCHANGE [1]

New York, ---------- 1 ----

A. B. of the county and State of New York have this day Sold / Bought and agreed to Deliver to / Receive from C. D. of the same place, 50,000 pounds in about 100 square bales of Cotton, growth of the United States, at the price of — cents per pound for Middling, with additions or deductions for other grades in accordance with the provisions of the United States Cotton Futures Act, Section 6, deliverable from licensed warehouse, in the port of New York, between the first and last days of ———, inclusive, the delivery within such time to be at seller's option in one warehouse, upon notice to buyer, as provided by the By-Laws and Rules of the New York Cotton Exchange. The Cotton dealt with herein or delivered hereunder shall be of, or within, the grades for which standards are established by the Secretary of Agriculture, except cotton prohibited from being delivered on a contract by the fifth subdivision of Section 5 of the United States Cotton Futures Act, and shall be of no other grade or grades, and shall be subject to New York Cotton Exchange inspection.

Either party may call for a margin, as the variations of the market for like deliveries may warrant, which margin shall be kept good.

This contract is made in view of, and in all respects subject to the regulations made pursuant to said United States cotton futures act and to the By-Laws and Rules of the New York Cotton Exchange not in conflict with said Act or said regulations.

Subject to United States Cotton Futures Act, Section 5.

Appendix 2

REGULATIONS OF THE SECRETARY OF AGRICULTURE UNDER THE UNITED STATES COTTON FUTURES ACT ON PRICE QUOTATIONS AND DIFFERENCES [2]

Regulation 15. Price Quotations and Differences

Section 1. Every bona fide spot market shall, as a condition of its designation and of the retention thereof for the purposes of the act, conform to sections 6, 7, and 8 of the act and the requirements of this regulation.

[1] See section 33 of the by-laws and rules of the New York Cotton Exchange, Nov. 15, 1920.
[2] Regulation 15, Circular 159, Office of the Secretary United States Department of Agriculture.

SEC. 2. The prices or values of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton in each bona fide spot market shall be based solely upon the grades of the official cotton standards of the United States and shall be the actual commercial prices or values and differences established by the sale of spot cotton in such bona fide spot market. Such prices or values and differences shall be determined as provided in said sections of the act and this regulation.

SEC. 3. There shall be established and maintained in each bona fide spot market a competent quotation committee. The organization of such committee and its personnel shall be subject to the approval of the chief of the bureau, and any member of such committee who for good cause is disapproved by the chief of the bureau shall, after due notice, be replaced by another person acceptable for the purpose to the chief of the bureau. Such committee shall impartially and carefully ascertain and publish on each business day the value of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton represented by the official cotton standards of the United States. The committee shall disregard any transactions which it finds were not bona fide, or were made for the purpose of influencing its action improperly, or for other good reasons do not represent truly the commercial values of spot cotton in its market. The time or times of ascertaining and publishing such prices or values and differences shall be uniform in all the bona fide spot markets and shall be fixed subject to the approval of the chief of the bureau so as to carry out the purposes of sections 5 and 6 of the act. The committee shall cause its action to be communicated at once to each future exchange and to the bureau.

SEC. 4. Each such quotation committee shall provide itself with, or have ready access to, a full set of the practical forms of the official cotton standards of the United States for grade and color of upland cotton, each box of which shall contain a certificate of the Secretary of Agriculture which is not more than 18 months old and which has not been canceled as provided elsewhere in these regluations. Such committee, or a person authorized to act for it, shall obtain complete and satisfactory information not later than the close of business on each business day as to all sales of spot cotton since the close of the next preceding business day, including the grades, the prices or price basis, and other terms of sale in sufficient detail to enable the committee to perform its duties accurately. Such committee shall also have access to the samples representing the cotton involved in such sales. A record of such information shall be kept subject to examination at any reasonable time by a duly authorized representative of the bureau, and the samples of the cotton as long as they remain in the possession of any party to the transaction in such market shall also be available for such examination.

SEC. 5. Whenever no sale of a particular grade of cotton shall have been made on a given day in a particular bona fide spot market, the value of such grade in that market on that day, which shall be used in calculating the commercial differences to be applied, pursuant to section 6 of the act, in the settlement of a section 5 contract, shall be determined in accordance with section 6 of this regulation.

SEC. 6. Paragraph 1. If on such given day there shall have been in such market both a sale of any higher grade and a sale of any lower grade, the average of the declines, or advances, or decline and advance, as the case may be, of the next higher grade and the next lower grade so sold, shall be deducted from, or added to, as the case may be, the value, on the last preceding business day, of the grade the value of which on such given day is sought to be ascertained.

Paragraph 2. If on such given day there shall have been in such market a sale of either a higher or a lower grade, but not sales of both, the decline, or advance, of the next higher, or the next lower grade so sold shall be deducted from, or added to, as the case may be, the value, on the last preceding business day, of the grade the value of which on such given day is sought to be ascertained.

Paragraph 3. If on such given day there shall have been in such market no sale of spot cotton of any grade, the value of each grade shall be deemed to be the same as its value therein on the last preceding business day, unless in the meantime there shall have been bona fide bids and offers, or sales of hedged cotton, or other sales of cotton, or changes in prices of future contracts made subject to the act, which in the usual course of business would clearly establish a rise or fall in the value of spot cotton in such market, in which case such rise or fall may be calculated and added to or deducted from the value on the preceding business day of cotton of all grades affected thereby.

SEC. 7. For the purpose of this regulation, values shall be expressed in terms of cents and hundredths of a cent. A fraction of a hundredth, when equal to, or greater than, the half thereof, shall be treated as a hundredth, and, when less than a half of a hundredth, shall be disregarded.

SEC. 8. The details of the method of carrying out the provisions of this regulation in each bona fide spot market shall be subject to the approval of the chief of the bureau or shall be prescribed by him.

APPENDIX 3

RESOLUTIONS ADOPTED BY REPRESENTATIVES OF TEN SPOT COTTON MARKETS TO FIX DIFFERENCES ON SPOT COTTON QUOTATIONS, MEMPHIS, TENN., APRIL 14, 1919

(1) RESOLVED, That the responsibility for quoting different grades to Washington rests with the quotation committee.

(2) ITS COMPOSITION: Committee of five composed of two buyers and two sellers, appointed by the President for two months, one buyer and one seller to be replaced every 30 days; also a Chairman, appointed by the President, who shall serve for 30 days and be alternately a buyer and a seller.

New Orleans reserves its present system.

(3) METHOD OF OBTAINING FACTS: Buyers and sellers report daily to Superintendent of Exchange all purchases and sales, with prices of each grade. If purchase or sale is of average grade, buyer and seller must report to the best of his knowledge and belief the value of each grade. This information furnished the Superintendent is strictly

confidential, and his duty shall be to report to the Quotation committee an average price of various grades bought and sold, also the total number of bales traded in. The Committee shall have the discretion to decide whether the total transactions are too small to base quotations on, and they shall also have the power, if the quotations seem to be at variance with the actual transactions, to demand from the Superintendent that he furnish them with a list of the transactions from which his figures were derived. If the transactions are so small as to make, in the opinion of the Committee, a purely nominal market, the Committee shall request the Superintendent to secure bid and ask price on each grade from the various buyers and sellers, and the Superintendent shall figure the average price of each grade from the average bid and ask price on 50 bales or more. It is understood that when any sales of spot cotton are made and which, in the opinion of the spot committee, are made for the purpose of influencing (if possible) the spot quotations; or, any sales which do not represent true market value—then such sales are not to be considered by the Committee in making spot quotations.

When a basis trade is made the buyer and seller must agree, for the purpose of getting the average quotations only, the approximate amount of each grade contained in the same.

(4) Uniform Method of Arriving at the Quotation for Middling Cotton: All quotations shall be based on bona fide transactions in spot cotton, $\frac{7}{8}$-inch. The price of middling cotton shall be quoted on the value of middling cotton, Government standard $\frac{7}{8}$-inch.

Daily quotations shall be made at the closing time of the New York and New Orleans contract markets, based on average sales reported to the Superintendent since the previous close of the Central Market.

We recommend that these resolutions be referred back to the various exchanges for their consideration, and should these resolutions be adopted we recommend that they be put into effect on and after the 1st day of August, 1919.

Appendix 4

THE UNITED STATES COTTON FUTURES ACT

[Extract from an act of Congress entitled "An act making appropriations for the Department of Agriculture for the fiscal year ending June 30, 1917, and for other purposes," approved August 11, 1916, Public No. 190]

Note.—Matter in italics constitutes the amendment of March 4, 1919.

That this Act shall be known by the short title of the "United States Cotton Futures Act."

Sec. 2. That, for the purposes of this Act, the term "contract of sale" shall be held to include sales, agreements of sale, and agreements to sell. That the word "person," wherever used in this Act, shall be construed to import the plural or singular, as the case demands, and shall include individuals, associations, partnerships, and corporations. When construing and enforcing the provisions of this Act, the act, omission, or failure of any official, agent, or other person acting for or employed by any association, partnership, or corporation within the scope of his employment or office, shall, in every

case, also be deemed the act, omission, or failure of such association, partnership, or corporation as well as that of the person.

Sec. 3. That upon each contract of sale of any cotton, for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business, there is hereby levied a tax in the nature of an excise of 2 cents for each pound of the cotton involved in any such contract.

Sec. 4. That each contract of sale of cotton for future delivery mentioned in section three of this Act shall be in writing plainly stating, or evidenced by written memorandum showing, the terms of such contract, including the quantity of the cotton involved and the names and addresses of the seller and buyer in such contract, and shall be signed by the party to be charged, or by his agent in his behalf. If the contract or memorandum specify in bales the quantity of the cotton involved, without giving the weight, each bale shall, for the purposes of this Act, be deemed to weigh five hundred pounds.

Sec. 5. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof if the contract comply with each of the following conditions:

First. Conform to the requirements of section four of, and the rules and regulations made pursuant to, this Act.

Second. Specify the basis grade for the cotton involved in the contract, which shall be one of the grades for which standards are established by the Secretary of Agriculture, except grades prohibited from being delivered on a contract made under this section by the fifth subdivision of this section, the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled: *Provided,* That middling shall be deemed the basis grade incorporated into the contract if no other basis grade be specified either in the contract or in the memorandum evidencing the same.

Third. Provide that the cotton dealt with therein or delivered thereunder shall be of or within the grades for which standards are established by the Secretary of Agriculture except grades prohibited from being delivered on a contract made under this section by the fifth subdivision of this section and no other grade or grades.

Fourth. Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided:

Fifth. Provide that cotton that, because of the presence of extraneous matter of any character or irregularities or defects, is reduced in value below that of low middling, or cotton that is below the grade of low middling, or, if tinged, cotton that is below the grade of strict middling, or, if yellow stained, cotton that is below the grade of good middling the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple or of immature staple or cotton that is "gin cut" or reginned, or cotton that is "repacked" or "false packed" or "mixed packed" or "water packed," shall not be delivered on, under, or in settlement of such contract.

Sixth. Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that, on the fifth business day prior to delivery, the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that, on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, identifying each bale with its grade.

Seventh. Provide that all tenders of cotton and settlements therefor under such contract shall be in accordance with the classification thereof made under the regulations of the Secretary of Agriculture by such officer or officers of the Government as shall be designated for the purpose, and the costs of such classification shall be fixed, assessed, collected, and paid as provided in such regulations. All moneys collected as such costs may be used as a revolving fund for carrying out the purposes of this subdivision, and section nineteen of this Act is amended accordingly.

The provisions of the third, fourth, fifth, sixth, and seventh subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase "Subject to United States cotton futures act, section five."

The Secretary of Agriculture is authorized to prescribe regulations for carrying out the purposes of the seventh subdivision of this section, and the certificates of the officers of the Government as to the classification of any cotton for the purposes of said subdivision shall be accepted in the courts of the United States in all suits between the parties to such contract, or their privies, as prime facie evidence of the true classification of the cotton involved.

Sec. 6. That for the purposes of section five of this Act the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basis grade in the settlement of a contract of sale for the future delivery of cotton shall be determined by the actual commercial differences in value thereof upon the sixth business day prior to the day fixed, in accordance with the sixth subdivision of section five, for the delivery of cotton on the contract, established by the sale of spot cotton in the market where the future transaction involved occurs and is consummated if such market be a bona fide spot market; and in the event there be no bona fide market at or in the place in which such future transaction occurs, then, and in that case, the said differences above or below the contract price which the receiver shall pay for cotton above or below the basis grade shall be determined by the average actual commercial differences in value thereof, upon the sixth business day prior to the day fixed, in accordance with the sixth subdivision of section five, for the delivery of cotton on the contract, in the spot markets of not less than five places designated for the purpose from time to time by the Secretary of Agriculture, as such values were established by the sales of spot cotton, in such designated five or more markets: *Provided,* That for the purposes of this section such values in the said spot markets be based upon the standards for grades of cotton established by the Secretary of Agriculture: *And provided further,* That whenever the value of one grade is to be determined from the sale or sales of spot cotton of another grade or grades, such value shall be fixed in accordance with rules and regulations which shall be prescribed for the purpose by the Secretary of Agriculture.

Sec. 6A. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof if the contract provide that, in case cotton of grade or grades other than the basis grade specified in the contract shall be tendered in performance of the contract, the parties to such contract may agree, at the time of the tender, as to the price of the grade or grades so tendered, and that if they shall not then agree as to such price, then, and in that event, the buyer of said contract shall have the right to demand the specific fulfillment of such contract by the actual delivery of cotton of the basis grade named therein and at the price specified for such basis grade in said contract, and if the contract also comply with all the terms and conditions of section five hereof not inconsistent with this section: *Provided,* That nothing in this section shall be so construed as to relieve from the tax levied by section three of this Act any contract in which, or in the settlement of or in respect to which, any device or arrangement whatever is resorted to, or any agreement is made, for the determination or adjustment of the price of the grade or grades tendered other than the basis grade specified in the contract by any "fixed difference" system, or by arbitration, or by any other method not provided for by this act.

Contracts made in compliance with this section shall be known as "Section Six A Contracts." The provisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase "Subject to United States cotton futures Act, section 6A."

Section ten of this Act shall not be construed to apply to any contract of sale made in compliance with section six A hereof.

Sec. 7. That for the purposes of this Act the only markets which shall be considered bona fide spot markets shall be those which the Secretary of Agriculture shall, from time to time, after investigation, determine and designate to be such, and of which he shall give public notice.

Sec. 8. That in determining, pursuant to the provisions of this Act, what markets are bona fide spot markets, the Secretary of Agriculture is directed to consider only markets in which spot cotton is sold in such volume and under such conditions as customarily to reflect accurately the value of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton for which standards shall have been established by the Secretary of Agriculture: *Provided,* That if there be not sufficient places, in the markets of which are made bona fide sales of spot cotton of grades for which standards are established by the Secretary of Agriculture, to enable him to designate at least five spot markets in accordance with section six of this Act, he shall, from data as to spot sales collected by him, make rules and regulations for determining the actual commercial differences in the value of spot cotton of the grades established by him as reflected by bona fide sales of spot cotton, of the same or

different grades, in the markets selected and designated by him, from time to time, for that purpose, and in that event, differences in value of cotton of various grades involved in contracts made pursuant to section five of this act shall be determined in compliance with such rules and regulations.

Provided further, That it shall be the duty of any person engaged in the business of dealing in cotton, when requested by the Secretary of Agriculture or any agent acting under his instructions, to answer correctly to the best of his knowledge all questions touching his knowledge of the number of bales, the classification, the price or bona fide price offered, and other terms of purchase or sale, or any cotton involved in any transaction participated in by him, or to produce all books, letters, papers, or documents in his possession or under his control relating to such matter. Any such person who shall, within a reasonable time prescribed by the Secretary of Agriculture or such agent, wilfully fail or refuse to answer such questions or to produce such books, letters, papers, or documents, or who shall wilfully give any answer that is false or misleading, shall be guilty of a misdemeanor, and upon conviction thereof shall be punished by a fine not exceeding $500.

SEC. 9. That the Secretary of Agriculture is authorized, from time to time, to establish and promulgate standards of cotton by which its quality or value may be judged or determined, including its grade, length of staple, strength of staple, color, and such other qualities, properties, and conditions as may be standardized in practical form, which, for the purposes of this Act, shall be known as the "official cotton standards of the United States," and to adopt, change, or replace the standard for any grade of cotton established under the act making appropriations for the Department of Agriculture for the fiscal year ending June thirtieth, nineteen hundred and nine (Thirty-fifth Statutes at Large, page two hundred and fifty-one), and Acts supplementary thereto: *Provided*, That any standard of any cotton established and promulgated under this Act by the Secretary of Agriculture shall not be changed or replaced within a period less than one year from and after the date of the promulgation thereof by the Secretary of Agriculture: *Provided further*, That, subsequent to six months after the date section three of this act becomes effective, no change or replacement of any standard of any cotton established and promulgated under this Act by the Secretary of Agriculture shall become effective until after one year's public notice thereof, which notice shall specify the date when the same is to become effective. The Secretary of Agriculture is authorized and directed to prepare practical forms of the official cotton standards which shall be established by him, and to furnish such practical forms from time to time, upon request, to any person, the cost thereof, as determined by the Secretary of Agriculture, to be paid by the person requesting the same, and to certify such practical forms under the seal of the Department of Agriculture and under the signature of the said Secretary, thereto affixed by himself or by some official or employee of the Department of Agriculture thereunto duly authorized by the said Secretary.

SEC. 10. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof, if the contract comply with each of the following conditions:

First. Conform to the rules and regulations made pursuant to this Act.

Second. Specify the grade, type, sample, or description of the cotton involved in the contract, the price per pound at which such cotton is contracted to be bought or sold, the date of the purchase or sale, and the time when shipment or delivery of such cotton is to be made.

Third. Provide that cotton of or within the grade or of the type, or according to the sample or description, specified in the contract shall be delivered thereunder, and that no cotton which does not conform to the type, sample, or description, or which is not of or within the grade specified in the contract shall be tendered or delivered thereunder.

Fourth. Provide that the delivery of cotton under the contract shall not be effected by means of "set-off" or "ring" settlements, but only by the actual transfer of the specified cotton mentioned in the contract.

The provisions of the first, third, and fourth subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the document or memorandum evidencing the same, at or prior to the time the same is entered into, the words "subject to United States cotton futures act, section 10."

This Act shall not be construed to impose a tax on any sale of spot cotton.

This section shall not be construed to apply to any contract of sale made in compliance with section five of this act.

SEC. 11. That the tax imposed by section three of this Act shall be paid by the seller of the cotton involved in the contract of sale by means of stamps which shall be affixed to such contracts, or to the memoranda evidencing the same, and canceled in compliance with rules and regulations which shall be prescribed by the Secretary of the Treasury.

SEC. 12. That no contract of sale of cotton for future delivery mentioned in section three of this Act which does not conform to the requirements of the section four hereof and has not the necessary stamps affixed thereto as required by the section eleven hereof shall be enforceable in any court of the United States by, or on behalf of, any party to such contract or his privies.

SEC. 13. That the Secretary of the Treasury is authorized to make and promulgate such rules and regulations as he may deem necessary to collect the tax imposed by this Act and otherwise to enforce its provisions. Further to effect this purpose, he shall require all persons coming within its provisions to keep such records and statements of account, and may require such persons to make such returns verified under oath otherwise, as will fully and correctly disclose all transactions mentioned in section three of this act, including the making, execution, settlement, and fulfillment thereof; he may require all persons who act in the capacity of a clearing house, clearing association, or similar institution for the purpose of clearing, settling, or adjusting transactions mentioned in section three of this Act to keep such records and to make such returns as will fully and correctly disclose all facts in their possession relating to such transactions; and he may appoint agents to conduct the inspection necessary to collect said tax and otherwise to enforce this act and all rules and regulations

made by him in pursuance hereof, and may fix the compensation of such agents. The provisions of the internal-revenue laws of the United States, so far as applicable, including sections thirty-one hundred and seventy-three, thirty-one hundred and seventy-four, and thirty-one hundred and seventy-five of the Revised Statutes, as amended, are hereby extended and made to apply to this Act.

SEC. 14. That any person liable to the payment of any tax imposed by this act who fails to pay, or evades or attempts to evade the payment of such tax, and any person who otherwise violates any provision of this Act, or any rule or regulation made in pursuance hereof, shall be deemed guilty of a misdemeanor, and, upon conviction thereof, shall be fined not less than $100 nor more than $20,000 in the discretion of the court; and, in case of natural persons, may, in addition, be punished by imprisonment for not less than sixty days nor more than three years, in the discretion of the court.

SEC. 15. That in addition to the foregoing punishment there is hereby imposed, on account of each violation of this Act, a penalty of $2,000, to be recovered in an action founded on this Act in the name of the United States as plaintiff, and when so recovered one-half of said amount shall be paid over to the person giving the information upon which such recovery was based. It shall be the duty of the United States attorneys, to whom satisfactory evidence of violation of this Act is furnished, to institute and prosecute actions for the recovery of the penalties prescribed by this section.

SEC. 16. That no person whose evidence is deemed material by the officer prosecuting on behalf of the United States in any case brought under any provision of this Act shall withhold his testimony because of complicity by him in any violation of this Act or of any regulation made pursuant to this Act, but any such person called by such officer who testifies in such case shall be exempt from prosecution for any offense to which his testimony relates.

SEC. 17. That the payment of any tax levied by this act shall not exempt any person from any penalty or punishment now or hereafter provided by the laws of any State for entering into contracts of sale of cotton for future delivery, nor shall the payment of any tax imposed by this Act be held to prohibit any State or municipality from imposing a tax on the same transaction.

SEC. 18. That there is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the fiscal year ending June thirtieth, nineteen hundred and sixteen, the unexpended balance of the sum appropriated by the Act of March fourth, nineteen hundred and fifteen (Thirty-eighth Statutes at Large, page one thousand and seventeen), for "collecting the cotton futures tax," or so much thereof as may be necessary, to enable the Secretary of the Treasury to carry out the provisions of this Act and any duties remaining to be performed by him under the United States cotton futures Act of August eighteenth, nineteen hundred and fourteen (Thirty-eighth Statutes at Large, page six hundred and ninety-three.)

SEC. 19. That there are hereby appropriated out of any moneys in the Treasury not otherwise appropriated, available until expended, the unexpended balance of the sum of $150,000 appropriated by section twenty of the said Act of August eighteenth, nineteen hundred and fourteen, and for the fiscal year ending June thirtieth, nineteen hundred and sixteen, the unexpended balance of the sum of $75,000 appropriated for the "Enforcement of the United States cotton futures Act" by the Act making appropriations for the Department of Agriculture for the fiscal year ending June thirtieth, nineteen hundred and sixteen (Thirty-eighth Statutes at Large, page one thousand and eighty-six), or so much of each of said unexpended balances as may be necessary, to be used by the Secretary of Agriculture for the same purposes, in carrying out the provisions of this Act, as those for which said sums, respectively, were originally appropriated, and to enable the Secretary of Agriculture to carry out any duties remaining to be performed by him under the said Act of August eighteenth, nineteen hundred and fourteen. The Secretary of Agriculture is hereby directed to publish from time to time the results of investigations made in pursuance of this Act. All sums collected by the Secretary of Agriculture as costs under section five, or for furnishing practical forms under section nine of this Act, shall be deposited and covered into the Treasury as miscellaneous receipts.

SEC. 20. That sections nine, eighteen, and nineteen of this Act and all provisions of this Act authorizing rules and regulations to be prescribed shall be effective immediately. All other sections of this Act shall become and be effective on and after the first day of the calendar month next succeeding the date of the passage of this act: *Provided*, That nothing in this Act be construed to apply to any contract of sale of any cotton for future delivery mentioned in section three of this Act which shall have been made prior to the first day of the calendar month next succeeding the date of the passage of this Act.

SEC. 21. That the act entitled "An Act to tax the privilege of dealing on exchanges, boards of trade, and similar places in contracts of sale of cotton for future delivery, and for other purposes," approved August eighteenth, nineteen hundred and fourteen (Thirty-eighth Statutes at Large, page six hundred and ninety-three), is hereby repealed, effective on and after the first day of the calendar month next succeeding the date of the passage of this Act: *Provided*, That nothing in this Act shall be construed to affect any right or privilege accrued, any penalty or liability incurred, or any proceeding commenced under said Act of August eighteenth, nineteen hundred and fourteen, or to diminish any authority conferred by said Act on any official of the United States necessary to enable him to carry out any duties remaining to be performed by him under the said Act, or to impair the effect of the findings of the Secretary of Agriculture upon any dispute referred to him under said Act, or to affect any right in respect to, or arising out of, any contract mentioned in section three of said Act made on or subsequent to February eighteenth, nineteen hundred and fifteen, and prior to the first day of the calendar month next succeeding the date of the passage of this Act; but so far as concerns any such contract said Act of August eighteenth, nineteen hundred and fourteen, shall remain in force with the same effect as if this Act had not been passed.

SEC. 22. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Appendix 5

MONTHLY AVERAGE SPREADS AT NEW YORK AND NEW ORLEANS

Conclusions stated in the first subsection of section 3 of Chapter IX are based upon data presented and described in this appendix. The principal purpose of this appendix is a comparison of New York and New Orleans with regard to the tendency to discounts of the farther under the nearer options and of futures under spots.

In considering the question of what is a true parity between spots and futures reasons have been given why more emphasis should be laid upon interoption spreads than upon spot-future spreads in attempting to measure the tendency to discounts shown by cotton futures.[3] Hence the data relate particularly to interoption spreads,[4] but data for spot-future spreads are also presented.

Interoption spreads; eight-year discounts, 1914–15 to 1922–23.—Tables of average interoption spreads for the eight-year period 1915–16 to 1922–23 were compiled, which show how very general the phenomenon of discounts is both for New York and for New Orleans. These comprise practically the whole period since the cotton futures act. In order to avoid the undue effect of the higher prices naturally associated with wider spreads upon the average spreads the individual spreads in question were reduced to percentages of the contemporaneous average spot price on the 10 designated markets before combining into four-year averages.[5]

A condensation of the numerous figures of the tables into single figures was made through averaging the spreads for corresponding delivery months and trading months for eight years, there being in all 99 such corresponding eight-year averages on each market for spreads between options within the same crop year to be combined into a single figure, and of 55 corresponding averages for spreads between options involving different crop years to be similarly combined. The average per cent discount within the same crop year for New York was 0.83 and for New Orleans 0.59, a difference of 0.24 in favor of New Orleans.[6] With regard to comparisons involving two different crop years, however, it appears that New York shows a discount of 5.03 per cent and New Orleans one of 5.25 per cent, a difference in favor of New York.

Two periods distinguished.—The eight-year period 1915–16 to 1922–23 is divided into two periods: First, the four-year period 1917–18 to 1920–21, especially influenced by war-time conditions, and the remaining four years, 1915–16 to 1916–17 and 1921–22 to 1922–23, which appear to be of a more nearly normal character, and which are, in fact, markedly different with respect to discounts. The following table shows the instances of premiums and of discounts in interoption spreads for this eight-year period, and for each of these two subperiods:

[3] See pages 209 and 216.

[4] The spread is computed by subtracting the price for the earlier from that for the later maturing option. Monthly average prices are computed from daily closing quotations.

[5] Per cent relatives are used in the analysis contained in this appendix in preference to logarithmic methods because the results are more easily comprehended by the public and because, for the comparisons made, the inaccuracies involved in the per cent method make no practical difference.

[6] The averages are, of course, algebraic averages, and premiums have the effect, in proportion to their number and size, of canceling discounts.

TABLE 5-a.—*Instances*[1] *of premiums and discounts*[2] *in interoption spreads, 1915–16 to 1922–23*

Class of options	Spreads between—													
	October and later options		December and later options		January and later options		March and later options		May and later options		July and later options		Total	
	New York	New Orleans	New York	New Orleans	New York	New Orleans	New York	New Orleans	New York	New Orleans	New York	New Orleans	New York	New Orleans
Eight years:														
Options of same crop—														
Plus	97	94	78	96	72	73	44	46	21	21	----	----	312	330
Minus	[3] 127	[3] 130	138	[3] 120	96	[3] 95	[3] 76	74	[4] 43	43	----	----	480	462
Of different crops—														
Plus	----	----	3	4	5	7	13	14	28	28	46	50	95	103
Minus	----	----	13	12	27	25	51	50	[3] 100	100	154	[3] 150	345	337
Four years, 1917–18 to 1920–21:														
Options of same crop—														
Plus	18	15	14	25	13	21	7	13	8	5	----	----	60	79
Minus	[3] 78	81	82	[3] 71	63	[3] 55	[3] 45	39	20	23	----	----	288	269
Of different crops—														
Plus	----	----	1	1	1	4	6	6	14	13	21	24	43	48
Minus	----	----	7	7	15	12	22	22	46	47	71	68	161	156
Four years, 1915–16, 1916–17, 1921–22, and 1922–23:														
Options of same crop—														
Plus	79	79	64	71	59	52	37	33	13	16	----	----	252	251
Minus	49	[3] 49	56	49	33	40	31	35	[4] 23	20	----	----	192	193
Of different crops—														
Plus	----	----	2	3	4	3	7	8	14	15	25	26	52	55
Minus	----	----	6	5	12	13	29	28	54	[3] 53	83	[3] 82	184	181

[1] The variety and number of comparisons of active options and the number of months of trading included in this table are indicated by the greater detail of Tables 5–b and 5–c following. Each instance represents the spread between the option specified and a later maturing option in a month in which both were traded in. Spreads for one market for months for which simultaneous spreads are not available for the other are omitted.

[2] When the farther is above the nearer option the spread is regarded as a premium and indicated by a plus sign, and vice versa, when the farther is below the nearer option the spread is regarded as a discount and indicated by a minus sign.

[3] Includes one zero spread.

[4] Includes two zero spreads.

The four years especially affected by war-time conditions show a much larger number of discounts in both the New Orleans and New York markets than in the more nearly normal years. Taking, for example, options in the same crop year, the numbers were 269 and 288, respectively, for the war-time conditions, and 193 and 192 for the more normal period for New Orleans and New York, respectively. For this reason the next tables compare data for the more normal years only.

Interoption spreads in four more nearly normal years.—Tables 5b and 5c show four-year average spreads between options for New York and New Orleans, respectively, for the years 1915–16, 1916–17, 1921–22, and 1922–23. As before, the monthly average spread is reduced to a percentage of the spot price before combination with spreads for corresponding years.

TABLE 5b.—*Four-year averages of the monthly average interoption spreads specified, expressed as a percentage of the spot price in the month of trading, on the New York Cotton Exchange, 1915–16, 1916–17, 1921–22, and 1922–23*

In the trading month of—	Spreads between—[1]									
	October option and later					December option and later				
	December	January	March	May	July	October	January	March	May	July
August	+1.82	+2.11	+3.38	+4.29	+4.85		+0.29	+1.56	+2.47	+3.02
September	+1.76	+1.92	+2.74	+3.23	+3.02		+.16	+.98	+1.47	+1.26
October	+1.31	+1.05	+1.61	+1.54	+.85		−.29	+.25	+.15	−.54
November						*−5.70*	+.06	+.68	+.77	−.02
December						*−4.60*	+.03	+1.05	+1.41	+.80
January	−.02									
February	+.08	−.04					−.10			
March	−.27	−.44					−.18			
April	+.01	−.19	+.08				−.20	+.08		
May	−.05	−.33	+.05				−.29	+.10		
June	−.27	−.50	−.23	−.19			−.23	+.05	+.08	
July	−.20	−.57	−.15	−.08			−.36	+.06	+.13	

In the trading month of—	Spreads between—[1]									
	January option and later					March option and later				
	October	December	March	May	July	October	December	January	May	July
August			+1.28	+2.18	+2.70				+0.91	+1.45
September			+.82	+1.31	+1.10				+.48	+.28
October			+.54	+.44	−.26				−.11	−.79
November	*−5.76*		+.62	+.70	−.08	*−6.40*			+.08	−.71
December	*−4.62*		+1.08	+1.40	+.83	*−5.70*			+.32	−.25
January	*−4.16*	*−4.08*	+.72	+1.10	+.47	*−4.71*	*−4.62*		+.44	−.19
February						*−3.87*	*−3.79*	*−3.86*	+.41	−.41
March						*−5.72*	*−6.08*	*−6.17*	−.08	−1.46
April			+.28							
May			+.39							
June			+.28	+.32					+.04	
July			+.43	+.49					+.07	

In the trading month of—	Spreads between—[1]									
	May option and later					July option and later				
	October	December	January	March	July	October	December	January	March	May
August					+0.56					
September					−.20					
October					−.69					
November	*−6.46*				−.79	*−5.70*				
December	*−6.02*				−.57	*−5.45*				
January	*−5.15*	*−5.08*			−.63	*−4.52*	*−4.49*			
February	*−4.28*	*−4.20*	*−4.25*		−.82	*−3.46*	*−3.38*	*−3.44*		
March	*−5.56*	*−5.84*	*−6.00*		−1.42	*−4.15*	*−4.42*	*−4.59*		
April	*−5.01*	*−5.00*	*−5.20*	*−4.87*	−1.43	*−3.59*	*−3.57*	*−3.77*	*−3.47*	
May	*−4.33*	*−4.31*	*−4.59*	*−4.16*	−2.01	*−2.46*	*−2.50*	*−2.79*	*−2.40*	
June						*−2.54*	*−2.81*	*−3.04*	*−2.77*	*−2.72*
July						*−3.26*	*−3.53*	*−3.92*	*−3.52*	*−3.48*

[1] When the farther is above the nearer option the spread is regarded as a premium and indicated by a plus sign, and, vice versa, when the farther is below the nearer option the spread is regarded as a discount and indicated by a minus sign.

NOTE.—Italic figures relate to spreads for delivery months in different crop years. The difference between the spreads of any two options from an earlier option would be constant for the same trading month (disregarding the discrepancies of limiting the number of decimal places in calculation, etc.), but for the fact that in making monthly averages for particular comparisons a different number of days is often available in one case from that in another, especially in the case of delivery months.

The spreads between options pertaining to the same crop year at New York with the trading month also in that crop year are in general positive. The four-year average spreads whose terms relate to different crop years are of a different character, not being affected by the carrying charge, and are all negative.

Between these two groups of spreads there is another group more closely allied to the first—a group for which the two options are in the same crop year but for which the month of trading falls in the crop year preceding.

TABLE 5c.—*Four-year averages of the monthly average interoption spreads specified, expressed as a percentage of the spot price in the month of trading, on the New Orleans Cotton Exchange, 1915–16, 1916–17, 1921–22, and 1922–23*

In the trading month of—	Spreads between[1]—									
	October option and later					December option and later				
	December	January	March	May	July	October	January	March	May	July
August	+1.68	+2.30	+3.56	+4.48	+[2]4.98		+0.62	+1.88	+2.80	+[2]3.65
September	+1.82	+2.19	+3.03	+3.55	+2.01		+.38	+1.21	+1.73	+.21
October	+1.12	+1.54	+2.11	+2.06	+1.69		+.42	+.98	+.91	+.48
November						*−4.59*	+.72	+1.60	+1.78	+1.30
December						*−4.13*	+.33	+1.61	+2.12	+1.85
January	−.03									
February	+.19	+[3].48					+[3].11			
March	−.20	−.28					−.08			
April	+.06	+.03	+.37				−.03	+.28		
May	−.16	−.13	+.08				+.03	+.23		
June	−.22	−.20	−.12	−.14			+.03	+.10	+.06	
July	+.01	+.13	+.36	+.44			+.12	+.35	+.44	

In the trading month of—	Spreads between[1]—									
	January option and later					March option and later				
	October	December	March	May	July	October	December	January	May	July
August			+1.26	+2.18	+[2]2.95				+0.92	+[2]1.75
September			+.84	+1.35	−.23				+.52	−1.07
October			+.56	+.49	+.06				−.06	−.50
November	*−5.32*		+.88	+1.06	+.58	*−6.24*			+.18	−.31
December	*−4.42*		+1.28	+1.79	+1.53	*−5.70*			+.52	+.26
January	*−4.78*	*−6.28*	−.51	+.17	+.05	*−4.17*	*−3.87*		+.68	+.61
February						*−3.55*	*−3.36*	−[3]*2.66*	+.42	+.31
March						*−5.07*	*−5.32*	*−5.31*	−.09	−.50
April			+.30							
May			+.20							
June			+.09	+.05					−.04	
July			+.24	+.32					+.08	

[1] When the farther is above the nearer option, the spread is regarded as a premium and indicated by a plus sign, and vice versa, when the farther is below the nearer option, the spread is regarded as a discount and indicated by a minus sign.

[2] Cne year.

[3] Three years.

NOTE.—Italic figures relate to spreads for delivery months in different crop years. The difference between the spreads of any two options from an earlier option would be constant for the same trading month (disregarding the discrepancies of limiting the number of decimal places in calculation, etc.) but for the fact that in making monthly averages for particular comparisons a different number of days is often available in one case from that in another, especially in the case of delivery months.

TABLE 5c.—*Four-year averages of the monthly average interoption spreads specified, expressed as a percentage of the spot price in the month of troding, on the New Orleans Cotton Exchange, 1915–16, 1916–17, 1921–22, and 1922–23*—Contd.

In the trading month of—	Spreads between [1]—									
	May option and later					July option and later				
	October	December	January	March	July	October	December	January	March	May
August					+[2]0.70					
September					−1.60					
October					−.44					
November	*−6.45*				−.48	*−4.83*				
December	*−6.21*				−.26	*−5.96*				
January	*−4.84*	*−4.64*			−.07	*−4.78*	*−4.65*			
February	*−3.97*	*−3.78*	−[3]*3.18*		−.11	*−3.86*	*−3.67*	−[3]*3.42*		
March	*−4.91*	*−5.11*	*−5.10*		−.37	*−4.55*	*−4.74*	*−4.76*		
April	*−4.03*	*−3.97*	*−4.00*	*−3.10*	−.10	*−3.93*	*−3.87*	*−3.90*	*−3.34*	
May	*−3.59*	*−3.72*	*−3.66*	*−3.37*	−.47	*−3.40*	*−3.57*	*−3.54*	*−3.34*	
June						*−3.71*	*−3.94*	*−3.92*	*−3.83*	*−3.45*
July						*−3.72*	*−3.74*	*−3.68*	*−3.46*	*−3.41*

[1] When the farther is above the nearer option, the spread is regarded as a premium and indicated by a plus sign, and vice versa, when the farther is below the nearer option, the spread is regarded as a discount and indicated by a minus sign.
[2] One year.
[3] Three years.

NOTE.—Italic figures relate to spreads for delivery months in different crop years. The difference between the spreads of any two options from an earlier option would be constant for the same trading month (disregarding the discrepancies of limiting the number of decimal places in calculation, etc.) but for the fact that in making monthly averages for particular comparisons a different number of days is often available in one case from that in another, especially in the case of delivery months.

The foregoing New Orleans interoption spreads show the same general characteristics as the New York figures.

To show whether there is any diffeence between New York and New Orleans as regards the strength of the tendency to discounts, comparable combined averages which will serve as single-figure indexes of the difference between the two markets in this respect have been computed similar to those shown for the eight-year period (see page 254), throwing out all the figures in tables 5b and 5c where less than the full four years' monthly average spreads are available for either market, so that the number of items entering into each corresponding average for the two markets is identical. The results of this computation—the combined average interoption spreads (percentages of price) for New York and for New Orleans for the four comparatively normal years—are as follows:

	Same-crop-year options			Options maturing in different crop years
	Trading months in same crop year with delivery months	Trading month prior to crop year of delivery months	Both groups of trading months	
Number of items (monthly average spreads) entering into the general average	296	148	444	236
Combined average for New York (per cent)	+0.65	−0.05	+0.42	−4.38
Combined average for New Orleans (per cent)	+0.91	+0.08	+0.63	−4.31
New Orleans above New York by	0.26	0.13	0.21	0.07

The comparison made in this tabular statement shows for the same crop year higher average premiums for New Orleans than for New York. The difference in favor of New Orleans (0.21 per cent of the price) is slightly less when the four war-time years are excluded than when they are included as in the figures on page 254 (0.24).

The difference between the two markets as regards interoption spreads is small; that for the same crop year is 0.21 per cent of the price, which with cotton at 25 cents amounts to over 5 points; and with cotton at 30 cents, to 6 points. But, statistically speaking, the significance of the difference is a matter of the persistency with which it is shown as well as of its size.

Variations in spreads of futures from spots.—Data on the spot-future discounts (the spread being regarded as a discount when the future is below the spot) at New York and New Orleans are given below. For this purpose comparisons of futures in both markets with averages of spots for the 10 designated spot markets are made. It should be noted that the comparative number and degree of the discounts for New Orleans as directly computed is not evidence of a stronger tendency to discounts there than at New York, since the comparison of each is with a southern spot price and some allowance for the freight difference between the two markets and the average of the spot markets should be subtracted from the New York spreads in order to put them on the same basis with New Orleans. It is the more necessary to mention this fact because the freight difference in question does not affect the interoption spreads just previously considered.

TABLE 5d.—*Average spreads between spot price in each month and specified future in same month, in percentage of spot price, at New York and at New Orleans, for four years, 1915–16, 1916–17, 1921–22, and 1922–23, combined* [1]

Month of trading	Spot spread					
	October	December	January	March	May	July
A. New York:						
August	+4.53	+6.35	+6.63	+7.91	+8.82	+0.09
September	+1.97	+3.73	+3.89	+4.71	+5.19	+4.99
October	+1.33	+2.38	+2.08	+2.62	+2.54	+1.83
November	*−4.32*	+1.34	+1.40	+2.03	+2.16	+1.32
December	*−4.15*	+.49	+.47	+1.55	+1.87	+1.30
January	*−3.61*	*−3.49*	+.58	+1.10	+1.54	+.91
February	*−3.95*	*−3.87*	*−3.57*	−.08	+.33	−.49
March	*−4.38*	*−4.64*	*−4.82*	+1.23	+1.19	−.23
April	*−3.07*	*−3.05*	*−3.25*	*−2.92*	+1.95	+.52
May	*−2.01*	*−2.06*	*−2.34*	*−1.96*	+2.59	+.45
June	*−2.84*	*−3.11*	*−3.35*	*−3.07*	*−3.03*	*−.31*
July	*−3.43*	*−3.63*	*−4.00*	*−3.58*	*−3.51*	−.60
B. New Orleans:						
August	+2.59	+4.27	+4.88	+6.15	+7.07	
September	+.18	+1.99	+2.37	+3.21	+3.58	+3.60
October	−.68	+.03	+.46	+1.01	+.95	+.51
November	−[2]*9.36*	−1.28	−.56	+.00	+.56	+.02
December	*−6.21*	−2.11	−1.79	−.51	+.01	−.25
January	*−5.73*	−[3]*4.29*	−2.05	−1.60	−.95	−.99
February	*−6.49*	*−6.05*	−[3]*4.53*	−2.84	−2.46	−2.53
March	*−7.05*	*−7.25*	*−7.22*	−2.14	−2.12	−2.50
April	*−5.65*	*−5.59*	*−5.62*	−[3]*11.35*	−1.63	−1.72
May	*−4.29*	*−4.44*	*−4.41*	*−4.21*	−.44	−.89
June	*−4.91*	*−5.13*	*−5.11*	*−5.02*	−[3]*7.81*	−1.19
July	*−5.98*	*−5.98*	*−5.86*	*−5.63*	*−5.54*	−2.58

[1] Italic figures indicate that the option matures in a different crop year from that to which the spot relates. When the future is above spots, the spread is regarded as a premium and is indicated by a plus sign, and vice versa, when the spots are above the future, the spread is regarded as a discount and indicated by a minus sign.
[2] Three-year average.
[3] Two-year average.

The New Orleans spreads are uniformly below those of New York; that is, a positive spread at New Orleans is smaller than a positive spread at New York and a negative spread at New Orleans larger than a negative spread at New York.

The New York future is uniformly below the 10 spot markets when the future relates to the next crop beyond that of the spot with which it is compared. It is nearly always, though not quite uniformly, above the spot price of the 10 markets when the two relate to the same crop year. The premiums for the same crop spreads at New York are largest early in the crop year but widen out somewhat in the delivery months of March and May.

The New Orleans future prices are at an enough lower general level than New York future prices to show many negative spreads, even where spot and future relate to the same crop year. The premiums in this market hold for two months for all options at the beginning of the crop year, for a third month for December and January options, for four months for March and July options, and for five months for May. Discounts are often comparatively large in delivery months, though in the case of March and May options less than in the month just before delivery.

In Table 5e are shown the differences (taken algebraically) between the New York and New Orleans spreads of Table 5d. In these four-year averages New York is always the higher market.

TABLE 5e.—*Difference between four-year average per cent spot-future spreads of New York and New Orleans, 1915–16, 1916–17, 1921–22, and 1922–23* [1]

Month of trading	October	December	January	March	May	July
August	1.94	2.08	1.75	1.76	1.75	-----
September	1.79	1.74	1.52	1.50	1.61	1.39
October	2.01	2.35	1.62	1.61	1.59	1.32
November	-----	2.62	1.96	2.03	1.61	1.30
December	*2.06*	2.60	2.26	2.06	1.86	1.55
January	*2.12*	-----	2.63	2.70	2.49	1.90
February	*2.54*	*2.18*	-----	2.76	2.79	2.04
March	*2.67*	*2.61*	*2.40*	3.37	3.31	2.27
April	*2.58*	*2.54*	*2.37*	-----	3.58	2.24
May	*2.28*	*2.38*	*2.07*	*2.25*	3.03	1.34
June	*2.07*	*2.02*	*1.76*	*1.95*	-----	.88
July	*2.55*	*2.35*	*1.86*	*2.05*	*2.08*	1.98

[1] As presented in Table 5d, New York is in all cases above New Orleans.

The differences between the two markets are slightly larger where the spreads involve different crop years than where they relate to the same crop year, but the greatest differences, amounting to over 3 per cent of spot prices, occur in the March option in the delivery month and in the May option for March, April, and May. For spreads relating to the same crop the difference between the two markets is at a minimum in September, except for May and July options, the minimum differences in these cases occurring in October and June, respectively. The maximum difference is in the delivery month for October, January, and March, in the month next prior to delivery for December and May, and in March for the July option.

Spreads between New York and New Orleans futures.—The figures used in Table 5f, following, showing the average monthly differences between the future prices in New York and New Orleans for the four years specified, are derived from the spreads from the 10 spot markets, but they could be computed directly as the spread between the two series of future prices. The spread is in points, not in percentages.

TABLE 5f.—*Spread (in points) by which New York exceeded* [1] *New Orleans future prices, by options, 1915–16, 1916–17, 1921–22, and 1922–23*

In the trading month of—	Options for delivery in— October	December	January	March	May	July
1915–16						
August	0.21	0.23	0.22	0.23	0.26	-----
September	.12	.13	.13	.11	.19	0.13
October	.13	.12	.10	.09	.09	.02
November	-----	.14	.11	.09	.08	.03
December	*.09*	.15	.15	.10	.08	.06
January	*.10*	*.11*	.23	.18	.13	.08
February	*.24*	*.18*	*.14*	.29	.23	.15
March	*.21*	*.24*	*.21*	.16	.18	.15
April	*.20*	*.24*	*.21*	-----	.16	.11
May	*.18*	*.21*	*.18*	*.19*	.17	.09
June	*.17*	*.20*	*.16*	*.15*	-----	.13
July	*.20*	*.22*	*.17*	*.14*	*.14*	.10
Average for crop year	.17	.18	.17	.16	.16	.10
1916–17						
August	.21	.20	.17	.13	.13	.07
September	.35	.31	.25	.20	.17	.11
October	.46	.58	.42	.33	.27	.20
November	*.24*	.54	.47	.36	.32	.22
December	*.34*	.44	.43	.44	.42	.30
January	*.37*	*.33*	.32	.43	.48	.33
February	*.49*	*.31*	-----	.31	.44	.43
March	*.41*	*.41*	*.37*	.59	.50	.45
April	*.52*	*.42*	*.46*	*.40*	.85	.77
May	*.62*	*.60*	*.55*	*.57*	.49	.61
June	*.70*	*.61*	*.54*	*.63*	*.56*	.73
July	*.88*	*.77*	*.65*	*.70*	*.67*	1.34
Average for crop year	.47	.46	.42	.42	.44	.46
1921–22						
August	.41	.48	.41	.43	.41	-----
September	.29	.30	.29	.35	.36	.46
October	.57	.48	.33	.38	.44	.43
November	*.49*	.77	.52	.70	.48	.45
December	*.51*	1.02	.81	.66	.53	.47
January	*.62*	-----	1.04	.97	.74	.61
February	.67	.70	-----	1.20	.99	.65
March	.78	.74	.71	1.44	1.24	.71
April	*.66*	.70	.67	-----	1.11	.64
May	*.48*	*.53*	*.53*	*.60*	1.23	.37
June	*.43*	*.54*	*.55*	*.62*	.78	.02
July	*.47*	*.52*	*.43*	*.53*	*.54*	.00
Average for crop year	.53	.62	.57	.72	.74	.44
1922–23						
August	.40	.46	.38	.45	.45	-----
September	.52	.55	.47	.53	.51	.41
October	.33	.62	.40	.48	.47	.44
November	*.44*	.55	.41	.41	.40	.34
December	*.60*	.26	.23	.36	.41	.36
January	*.35*	*.43*	.21	.33	.49	.36
February	*.42*	*.38*	*.38*	.04	.33	.21
March	*.49*	*.37*	*.32*	.21	.57	.16
April	*.53*	*.46*	*.32*	*.41*	.70	.14
May	*.55*	*.55*	*.33*	*.39*	.68	[2].04
June	*.61*	*.46*	*.33*	*.41*	*.22*	[2].13
July	*.71*	*.51*	*.32*	*.42*	*.41*	.49
Average for crop year	.50	.47	.34	.37	.47	.25

[1] New York was below New Orleans for the July option in May and June, 1923.
[2] New Orleans above New York.

After allowing for the shipping difference (chiefly transportation expense) between New Orleans and New York, which should put New York up, New York is generally lower than New Orleans. [7]

[7] "It takes about 85 points to cover the freight, insurance, and cost of delivery at New York from southern ports," including New Orleans. This refers to 1923. Some deduction must be made to allow for expenses incident to the delivery on New Orleans futures of cotton already in the market.

APPENDIX TABLE I.—*Maximum amount of borrowings of spot and future cotton concerns, by cities, for each year, 1919–20 to 1921–22*

City	Year ending June 30, 1920				Year ending June 30, 1921				Year ending June 30, 1922			
	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing
New York	1	$61,736,605.84	37.39	62	1	$29,829,412.68	34.15	61	1	$47,610,992.06	42.14	72
New Orleans	2	21,176,761.89	12.83	30	2	9,492,447.56	10.87	35	2	8,520,308.20	7.54	33
Boston	3	11,812,746.83	7.16	10	4	5,468,849.00	6.26	11	3	7,790,338.50	6.90	13
Memphis	5	7,056,477.24	4.27	27	3	5,547,810.44	6.35	25	4	5,325,623.80	4.71	37
Savannah	4	9,321,524.00	5.65	19	6	3,149,446.39	3.61	21	6	5,087,692.68	4.50	21
St. Louis	6	6,519,875.00	3.95	9	7	2,992,716.93	3.43	7	5	5,304,869.44	4.70	9
Norfolk	7	5,603,239.25	3.39	12	9	2,807,035.31	3.21	11	8	3,364,318.25	2.98	13
Dallas	9	3,326,884.45	2.01	14	5	3,163,396.33	3.62	17	7	3,386,210.41	3.00	22
Philadelphia	8	3,819,750.00	2.31	2	8	2,828,000.00	3.24	3	10	2,024,850.01	1.79	3
Galveston	10	2,265,826.44	1.37	6	10	2,136,491.71	2.45	7	9	2,056,931.84	1.82	9
Total, 10 cities		132,639,690.94	80.33	191		67,415,606.35	77.19	198		90,472,135.19	80.08	232
All other cities	(1)	32,477,311.78	19.67	110	(2)	19,918,542.42	22.81	115	(3)	22,505,800.34	19.92	145
Total		165,117,002.72	100.00	301		87,334,148.77	100.00	313		112,977,935.53	100.00	377

[1] Includes $9,129,964 from Japan and England.
[2] Includes $5,849,002.50 from Japan and England.
[3] Includes $2,358,475 from Japan and England.

APPENDIX TABLE II.—*Maximum amount of borrowings of concerns handling spot cotton, by cities, for each year, 1919–20 to 1921–22*

City	Year ending June 30, 1920				Year ending June 30, 1921				Year ending June 30, 1922			
	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing
New York	1	$50,348,087.01	35.18	54	1	$25,960,967.75	33.95	56	1	$38,795,739.93	39.94	66
New Orleans	2	19,622,261.89	13.71	25	2	8,549,947.56	11.18	29	3	7,640,308.20	7.87	27
Boston	3	11,812,746.83	8.26	10	3	5,468,849.00	7.15	11	2	7,690,338.50	7.92	13
Savannah	4	7,657,024.00	5.35	15	7	2,277,926.00	2.98	18	5	4,427,050.00	4.56	18
Memphis	6	4,856,961.37	3.39	21	4	3,674,241.88	4.80	20	6	3,881,869.83	4.00	32
St. Louis	5	5,075,500.00	3.55	8	9	1,981,649.99	2.59	6	4	4,456,000.01	4.59	9
Dallas	9	3,326,384.45	2.32	13	5	3,162,896.33	4.14	16	7	3,384,710.41	3.48	21
Philadelphia	7	3,819,750.00	2.67	2	6	2,828,000.00	3.70	3	10	2,024,850.01	2.08	3
Norfolk	8	3,535,739.25	2.47	11	10	1,675,785.31	2.19	10	8	2,134,318.25	2.20	12
Galveston	10	2,265,826.44	1.58	6	8	2,136,491.71	2.79	7	9	2,056,931.84	2.12	9
Total, 10 cities		112,320,281.24	78.48	165		57,716,755.53	75.47	176		76,492,116.98	78.76	210
All other cities	(1)	30,794,811.85	21.52	102	(2)	18,758,182.96	24.53	107	(3)	20,632,206.83	21.24	135
Total		143,115,093.09	100.00	267		76,474,938.49	100.00	283		97,124,323.81	100.00	345

[1] Includes $9,129,964 from Japan and England.
[2] Includes $5,849,002.50 from Japan and England.
[3] Includes $2,358,475.00 from Japan and England.

Appendix Table III.—*Maximum amount of borrowings of concerns which reported no spot sales on their own account, by cities, for each year, 1919–20 to 1921–22*

City	Year ending June 30, 1920				Year ending June 30, 1921				Year ending June 30, 1922			
	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing	Rank	Average maximum borrowings	Per cent of total borrowed	Number of concerns borrowing[1]
New York	1	$11,388,518.83	51.76	8	1	$3,868,444.93	35.62	5	1	$8,815,252.13	55.60	6
Memphis	2	2,199,515.87	10.00	6	2	1,873,568.56	17.25	5	2	1,443,753.97	9.11	5
Norfolk	3	2,067,500.00	9.40	1	3	1,131,250.00	10.42	1	3	1,230,000.00	7.76	1
New Orleans	5	1,554,500.00	7.06	5	5	942,500.00	8.68	6	4	880,000.00	5.55	6
St. Louis	6	1,444,375.00	6.56	1	4	1,011,066.94	9.31	1	5	848,869.43	5.35	(2)
Savannah	4	1,664,500.00	7.57	4	6	871,520.39	8.03	3	6	660,642.68	4.17	3
Boston									7	100,000.00	.63	(3)
Dallas									8	1,500.00	.01	1
Philadelphia	7	500.00		1	7	500.00		1				
Galveston												
Total, 10 cities		20,319,409.70	92.35	26		9,698,850.82	89.31	22		13,980,018.21	88.18	22
All other cities		1,682,499.93	7.65	8		1,160,359.46	10.69	8		1,873,593.51	11.82	10
Total		22,001,909.63	100.00	34		10,859,210.28	100.00	30		15,853,611.72	100.00	32

[1] Some concerns borrowed in more than one city. In such cases the concern is counted under the city in which the borrowings were greatest.
[2] Included under other cities in which the borrowings were greater. See note 1.
[3] Included under Savannah in which the borrowings were greater.

Appendix Table IV.—*Gross profit, expense, and income of cotton merchants, in total and per bale, by specified years*

TOTAL

Item	Fiscal years ending Dec. 31				Fiscal years ending Mar. 31 to Aug. 31			
	13 companies, 1919	13 companies, 1920	13 companies, 1921	15 companies, 1922	34 companies, 1920	43 companies, 1921	50 companies, 1922	35 companies, 1923
Net sales of cotton	$69,381,899.89	$64,228,169.31	$44,191,532.86	$70,044,001.17	$385,032,102.93	$217,347,843.10	$218,751,585.76	$241,003,964.48
Cost of cotton sold	66,853,182.59	59,707,049.50	41,059,277.29	64,004,308.14	361,312,290.69	194,988,116.93	199,092,639.00	219,344,473.38
Gross profit on cotton sold	2,528,717.30	4,521,119.81	3,132,255.57	6,039,693.03	23,719,812.24	22,359,726.17	19,658,946.76	21,659,491.10
General expenses	1,215,543.95	1,912,331.15	1,952,388.19	2,535,736.47	14,131,118.48	12,067,564.53	12,008,354.24	9,451,935.98
Net profit on cotton sold	1,313,173.35	2,608,788.66	1,179,867.38	3,503,956.56	9,588,693.76	10,292,161.64	7,650,592.52	12,207,555.12
Loss or gain on "futures" transactions	+165,931.93	−1,464,134.52	+292,059.50	−1,348,223.89	−2,293,088.52	−2,716,876.77	−1,963,010.16	−9,820,075.01
Total net profit	1,479,105.28	1,144,654.14	1,471,926.88	2,155,732.67	7,295,605.24	7,575,284.87	5,687,582.36	2,387,480.11
Interest paid	261,573.80	262,066.38	309,915.84	680,394.45	2,596,781.50	1,619,320.77	1,820,822.45	1,810,754.63
Net income	1,217,531.48	882,587.76	1,162,011.04	1,475,338.22	4,698,823.74	5,955,964.10	3,866,759.91	576,725.48
Bales	364,475	380,355	515,976	607,986	1,933,305	1,894,127	2,307,537	1,796,610

PER BALE

Item	13 companies, 1919	13 companies, 1920	13 companies, 1921	15 companies, 1922	34 companies, 1920	43 companies, 1921	50 companies, 1922	35 companies, 1923
Net sales of cotton	$190.36	$168.87	$85.65	$115.20	$199.16	$114.75	$94.80	$134.15
Cost of cotton sold	183.42	156.98	79.58	105.27	186.89	102.95	86.28	122.09
Gross profit on cotton sold	6.94	11.89	6.07	9.93	12.27	11.80	8.52	12.06
General expenses	3.34	5.03	3.79	4.17	7.31	6.37	5.20	5.26
Net profit on cotton sold	3.60	6.86	2.28	5.76	4.96	5.43	3.32	6.80
Loss or gain on "futures" transactions	+.46	−3.85	+.57	−2.22	−1.19	−1.43	−.85	−5.47
Total net profit	4.06	3.01	2.85	3.54	3.77	4.00	2.47	1.33
Interest paid	.72	.69	.60	1.12	1.34	.86	.79	1.01
Net income	3.34	2.32	2.25	2.42	2.43	3.14	1.68	.32

APPENDIX TABLE V.—*Investment, profit, and rate of return of cotton merchants by specified years*

Year	Number of companies	Total funds employed	Total net profit excluding futures: Amount	Total net profit excluding futures: Rate of return on total investment excluding futures	Total net profit including futures: Amount	Total net profit including futures: Rate of return on total investment including futures
Fiscal year ending Dec. 31:				*Per cent*		*Per cent*
1919	13	$5,588,310.36	$1,313,173.35	23.5	$1,479,105.28	26.5
1920	13	4,416,301.57	2,608,788.66	59.1	1,144,654.14	25.9
1921	13	4,985,434.00	1,179,867.38	23.7	1,471,926.88	29.5
1922	15	10,289,048.42	3,503,956.56	34.1	2,155,732.67	21.0
Fiscal year ending Mar. 31 to Aug. 31:						
1920	34	44,811,045.77	9,588,693.76	21.4	7,295,605.24	16.3
1921	43	36,633,860.98	10,292,161.64	28.1	7,575,284.87	20.7
1922	50	43,756,464.96	7,650,592.52	17.5	5,687,582.36	13.0
1923	35	44,871,197.75	12,207,555.12	27.2	2,387,480.11	5.3

Year	Number of companies	Proprietary investment	Net income excluding futures	Rate of return on proprietary investment excluding futures	Net income including futures	Rate of return on proprietary investment including futures
Fiscal year ending Dec. 31:				*Per cent*		*Per cent*
1919	13	$2,679,302.20	$1,051,599.55	39.3	$1,217,531.48	45.4
1920	13	2,399,313.25	2,346,722.28	97.8	882,587.76	36.8
1921	13	2,445,372.47	869,951.54	35.6	1,162,011.04	47.5
1922	15	3,850,965.34	2,823,562.11	73.3	1,475,338.22	38.3
Fiscal year ending Mar. 31 to Aug. 31:						
1920	34	13,807,737.34	6,991,912.26	50.6	4,698,823.74	34.0
1921	43	20,414,061.56	8,672,840.87	42.5	5,955,964.10	29.2
1922	50	23,133,879.76	5,829,770.07	25.2	3,866,759.91	16.7
1923	35	21,895,125.91	10,396,800.49	47.5	576,725.48	2.6

APPENDIX TABLE VI.—*Profit, operating expense, and rate of return, by size groups and by specified years*

FISCAL YEARS ENDING DECEMBER 31

Year and group	Number of companies	Gross profit per bale, excluding futures	Operating expense per bale	Net profit per bale, excluding futures	Loss(−) or gain(+) per bale on futures	Net profit per bale, including futures	Interest, per bale	Net income per bale, interest deducted	Rate of return on total investment: Excluding futures (per cent)	Rate of return on total investment: Including futures (per cent)
Year 1919:										
Less than 10,000 bales	5	$15.69	$8.35	$7.34	+$0.45	$7.79	$0.65	$7.14	18.2	19.3
10,000 to 50,000 bales	6	10.00	3.81	6.19	−1.08	5.11	.63	4.48	34.1	28.4
50,000 to 100,000 bales	1	3.27	2.60	.67	+2.01	2.68	.74	1.94	5.3	21.1
Over 100,000 bales	1	4.69	2.65	2.04	+1.26	3.30	.83	2.47	19.9	32.2
Total	13	6.94	3.34	3.60	+.46	4.06	.72	3.34	23.5	26.5
Year 1920:										
Less than 10,000 bales	4	3.38	4.38	−1.00	−.90	−1.90	1.03	−2.93	−6.5	−12.4
10,000 to 50,000 bales	6	14.83	4.29	10.54	−7.73	2.81	.47	2.34	79.1	21.1
50,000 to 100,000 bales	2	10.45	6.44	4.01	+1.03	5.04	.83	4.21	30.2	38.0
Over 100,000 bales	1	9.90	4.50	5.40	−4.14	1.26	.83	.43	77.5	18.2
Total	13	11.89	5.03	6.86	−3.85	3.01	.69	2.32	59.1	25.9
Year 1921:										
Less than 10,000 bales	5	6.04	3.86	2.18	+.24	2.42	.56	1.86	12.7	14.2
10,000 to 50,000 bales	5	2.97	2.68	.29	+2.17	2.46	.39	2.07	2.3	19.6
50,000 to 100,000 bales	2	8.96	4.59	4.37	−.10	4.27	.88	3.39	36.0	35.2
Over 100,000 bales	1	6.10	3.94	2.16	−.03	2.13	.55	1.58	41.3	40.7
Total	13	6.07	3.79	2.28	+.57	2.85	.60	2.25	23.7	29.5
Year 1922:										
Less than 10,000 bales	7	14.28	5.11	9.17	+1.25	10.42	1.37	9.05	25.9	29.4
10,000 to 50,000 bales	6	13.87	5.08	8.79	−1.89	6.90	1.49	5.41	32.1	25.2
50,000 to 100,000 bales										
Over 100,000 bales	2	7.75	3.67	4.08	−2.58	1.50	.92	.58	38.1	14.0
Total	15	9.93	4.17	5.76	−2.22	3.54	1.12	2.42	34.1	21.0

APPENDIX TABLE VI.—*Profit, operating expense, and rate of return, by size groups and by specified years*—Continued

FISCAL YEARS ENDING MARCH 31 TO AUGUST 31

Year and group	Number of companies	Gross profit per bale, excluding futures	Operating expense per bale	Net profit per bale, excluding futures	Loss (−) or gain (+) per bale, on futures	Net profit per bale, including futures	Interest, per bale	Net income per bale, interest deducted	Rate of return on total investment: Excluding futures (per cent)	Rate of return on total investment: Including futures (per cent)
Year 1920:										
Less than 10,000 bales	7	$13.58	$7.26	$6.32	−$0.54	$5.78	$0.68	$5.10	33.1	30.2
10,000 to 50,000 bales	16	12.96	5.36	7.60	−2.39	5.21	1.27	3.94	36.3	24.9
50,000 to 100,000 bales	6	14.98	7.97	7.01	−2.55	4.46	1.31	3.15	33.4	21.3
Over 100,000 bales	5	10.97	7.75	3.22	−.28	2.94	1.40	1.54	12.9	11.8
Total	34	12.27	7.31	4.96	−1.19	3.77	1.34	2.43	21.4	16.3
Year 1921:										
Less than 10,000 bales	11	2.18	6.35	−4.17	+5.20	1.03	.89	.14	−16.1	4.0
10,000 to 50,000 bales	19	9.47	4.82	4.65	−1.15	3.50	.68	2.82	33.6	25.3
50,000 to 100,000 bales	8	10.50	7.34	3.16	+.95	4.11	.85	3.26	20.8	27.0
Over 100,000 bales	5	15.01	6.64	8.37	−3.92	4.45	.96	3.49	32.8	17.4
Total	43	11.80	6.37	5.43	−1.43	4.00	.86	3.14	28.1	20.7
Year 1922:										
Less than 10,000 bales	16	9.09	6.02	3.07	−.98	2.09	.94	1.15	12.3	8.4
10,000 to 50,000 bales	18	7.23	4.62	2.61	−.38	2.23	.71	1.52	16.7	15.5
50,000 to 100,000 bales	9	9.90	5.43	4.47	−1.36	3.11	.79	2.32	30.2	21.0
Over 100,000 bales	7	8.30	5.26	3.04	−.77	2.27	.81	1.46	13.6	10.1
Total	50	8.52	5.20	3.32	−.85	2.47	.79	1.68	17.5	13.0
Year 1923:										
Less than 10,000 bales	9	8.35	7.01	1.34	−1.78	−.44	.85	−1.29	4.1	−1.4
10,000 to 50,000 bales	16	11.79	5.75	6.04	−4.06	1.98	1.05	.93	24.9	8.2
50,000 to 100,000 bales	5	12.85	5.48	7.37	−4.78	2.59	.87	1.72	33.4	11.7
Over 100,000 bales	5	12.05	4.91	7.14	−6.44	.70	1.04	−.34	27.5	2.7
Total	35	12.06	5.26	6.80	−5.47	1.33	1.01	.32	27.2	5.3

APPENDIX TABLE VII.—*Spot quotation for middling white cotton and differences "off" for good ordinary and low middling, and differences "on" for good middling in each of the designated markets on the first business day of each month, and average for all markets, August, 1915, to November, 1923*

[Middling price expressed in cents per pound, differences in points per pound; 100 points=1 cent]

Year and month	Augusta: Spot price, middling	Augusta: Differences: Good ordinary	Augusta: Differences: Low middling	Augusta: Differences: Good middling	Dallas: Spot price, middling	Dallas: Differences: Good ordinary	Dallas: Differences: Low middling	Dallas: Differences: Good middling	Houston: Spot price, middling	Houston: Differences: Good ordinary	Houston: Differences: Low middling	Houston: Differences: Good middling
1915–16												
Aug. 2	8.50	250	100	50	8.45	250	100	60	8.80	225	125	50
Sept. 1	8.88	250	100	50	8.80	250	100	25	9.40	200	100	25
Oct. 1	11.25	225	75	50	11.30	250	100	50	11.60	250	125	50
Nov. 1	11.63	225	75	50	11.20	250	100	50	11.75	250	125	50
Dec. 1	12.13	175	75	50	11.90	250	100	50	12.50	250	125	50
Jan. 3	11.88	175	75	50	11.90	250	100	50	12.30	200	100	50
Feb. 1	11.50	175	75	50	11.40	250	100	50	12.00	200	100	50
Mar. 1	11.25	150	62	50	11.10	200	88	50	11.55	185	85	50
Apr. 1	11.75	150	62	50	11.75	200	88	50	12.20	185	85	50
May 1	11.88	150	62	50	12.00	200	88	50	12.35	185	85	50
June 1	12.56	150	62	50	12.40	200	88	50	12.80	185	85	50
July 1	12.75	150	62	50	12.85	175	75	50	13.50	175	75	50
1916–17												
Aug. 1	13.00	150	62	50	13.20	175	75	50	13.65	175	75	25
Sept. 1	15.69	150	62	25	15.05	175	75	37	15.75	175	75	25
Oct. 2	16.19	150	62	25	15.50	188	88	37	16.00	200	100	40
Nov. 1	18.75	150	62	25	17.80	188	88	37	18.45	140	70	50
Dec. 1	20.25	150	62	25	19.55	188	88	37	20.05	140	70	50
Jan. 2	17.50	150	62	25	16.90	188	88	37	17.40	140	70	50
Feb. 1	------	150	62	25	------	188	88	37	16.25	140	70	50
Mar. 1	17.06	150	62	25	16.50	188	88	37	16.95	140	70	50
Apr. 2	19.50	150	62	25	18.60	188	88	37	18.95	140	70	50
May 1	20.13	150	62	25	19.40	188	88	37	20.00	170	70	50
June 1	21.88	150	62	25	21.70	188	88	37	21.90	170	70	50
July 2	26.13	150	62	25	24.90	188	88	37	25.00	170	70	50

Year and month	Little Rock: Spot price, middling	Little Rock: Differences: Good ordinary	Little Rock: Differences: Low middling	Little Rock: Differences: Good middling	Memphis: Spot price, middling	Memphis: Differences: Good ordinary	Memphis: Differences: Low middling	Memphis: Differences: Good middling	Montgomery: Spot price, middling	Montgomery: Differences: Good ordinary	Montgomery: Differences: Low middling	Montgomery: Differences: Good middling
1915–16												
Aug. 2	8.50	200	85	50	8.75	212	100	50	8.50	188	100	50
Sept. 1	9.00	200	100	50	9.25	212	100	50	8.63	188	100	50
Oct. 1	11.75	200	100	50	11.75	200	100	50	11.00	188	100	50
Nov. 1	12.00	200	100	50	11.88	200	100	50	11.25	188	100	50
Dec. 1	12.00	200	100	50	11.75	200	100	50	11.75	188	100	50
Jan. 3	12.13	200	100	50	12.12	187	87	50	11.63	188	100	50
Feb. 1	12.12	162	63	36	12.00	150	50	37	11.50	188	100	50
Mar. 1	11.50	162	63	36	11.38	150	50	37	10.88	163	87	50
Apr. 1	12.13	175	75	36	12.00	150	50	37	11.50	163	81	44
May 1	12.31	175	75	36	12.12	162	62	50	11.62	163	81	44
June 1	12.88	175	75	36	13.00	162	62	50	12.37	150	69	38
July 1	13.00	175	75	36	13.12	162	62	38	12.62	150	69	38
1916–17												
Aug. 1	13.38	175	75	36	13.37	162	62	38	13.00	150	69	38
Sept. 1	15.75	175	75	36	15.75	162	62	38	15.38	150	69	38
Oct. 2	16.00	175	75	36	16.00	162	62	38	16.00	150	69	38
Nov. 1	18.50	175	75	36	18.75	162	62	38	18.44	150	62	25
Dec. 1	20.50	175	75	36	20.50	162	62	38	19.75	150	62	25
Jan. 2	17.25	175	75	36	18.00	162	62	50	17.25	150	62	25
Feb. 1	------	175	75	36	------	162	62	50	17.50	150	62	38
Mar. 1	16.50	175	75	36	17.00	162	62	50	17.13	150	62	38
Apr. 2	18.75	175	75	36	19.00	162	62	50	19.62	150	62	38
May 1	19.75	175	75	36	20.00	162	62	50	20.00	150	62	38
June 1	21.50	175	75	36	21.50	162	62	50	21.38	150	62	38
July 2	25.75	175	75	36	26.00	162	62	50	25.75	150	62	38

APPENDIX TABLE VII.—*Spot quotation for middling white cotton and differences "off" for good ordinary and low middling, and differences "on" for good middling in each of the designated markets on the first business day of each month, and average for all markets, August, 1915, to November, 1923*—Continued

Year and month	Augusta				Dallas				Houston				Little Rock				Memphis				Montgomery			
	Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences		
		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling
1917–18																								
Aug. 1	25.00	150	62	25	25.35	188	88	37	26.00	170	70	50	25.00	175	75	36	25.50	162	62	50	24.63	150	62	38
Sept. 4	21.00	150	62	25	21.25	188	88	37	21.80	170	70	30	22.50	175	75	36	24.50	162	62	50	21.00	150	62	38
Oct. 1	24.00	150	62	25	23.70	188	88	50	24.35	200	85	40	24.00	175	75	36	24.00	162	62	50	23.81	150	62	38
Nov. 1	27.38	150	62	25	26.55	188	88	50	26.70	200	85	50	27.75	175	75	36	28.50	162	62	50	27.63	150	62	38
Dec. 1	29.63	225	125	50	28.40	275	125	50	28.65	200	85	50	29.75	175	75	36	29.75	162	62	50	29.50	175	75	38
Jan. 2	30.75	225	125	50	30.36	275	125	50	31.00	200	85	50	30.50	250	100	50	30.00	162	62	50	30.75	175	75	50
Feb. 1	30.75	225	125	50	30.05	275	125	50	30.25	275	125	50	30.75	250	100	50	31.25	162	62	50	30.75	175	75	50
Mar. 1	32.38	225	125	50	31.75	300	150	75	32.20	350	150	70	31.63	250	100	50	32.00	162	62	50	32.50	200	100	50
Apr. 1	34.63	225	125	50	33.65	300	150	75	34.00	350	150	70	33.75	250	100	50	33.75	300	150	100	34.75	200	100	50
May 1	29.00	225	125	50	28.85	350	200	75	28.65	400	220	100	31.00	300	150	150	32.00	300	150	150	------	200	100	50
June 1	29.00	500	250	125	28.85	500	250	125	29.50	600	300	150	29.00	400	200	150	30.00	350	200	150	29.50	525	250	75
July 1	30.75	500	250	125	31.05	500	250	125	30.25	900	500	175	30.00	600	350	150	30.00	500	200	200	30.00	525	250	75
1918–19																								
Aug. 1	29.00	500	250	125	26.30	500	250	50	26.50	900	500	50	27.50	600	350	150	30.00	600	300	200	28.50	525	250	75
Sept. 3	35.37	625	250	63	35.80	500	250	50	35.75	900	500	50	35.00	600	350	150	35.00	600	300	200	35.00	600	250	75
Oct. 1	32.62	625	250	63	32.95	500	250	50	33.75	900	500	50	33.50	600	350	150	33.50	550	250	150	32.25	600	250	50
Nov. 1	27.13	625	250	63	27.30	750	350	50	28.50	900	500	100	29.50	600	350	150	29.50	550	250	100	28.50	600	250	50
Dec. 2	26.62	625	250	63	26.80	750	350	50	28.00	800	450	100	29.00	400	150	100	29.00	550	250	100	25.75	600	250	50
Jan. 2	29.88	825	425	125	30.75	750	350	50	31.40	800	450	100	30.50	750	300	100	30.50	550	250	100	30.50	700	300	75
Feb. 1	25.25	825	425	125	26.00	750	400	100	27.50	800	450	150	26.50	775	350	100	28.00	675	375	100	27.75	800	400	75
Mar. 1	25.62	1,100	550	125	24.95	1,000	500	125	25.75	1,000	500	150	26.50	1,200	750	125	26.50	1,100	550	100	25.50	1,200	800	75
Apr. 1	25.88	1,100	550	125	25.00	1,000	500	125	25.65	1,000	500	150	26.00	1,200	550	125	26.50	1,100	550	100	26.00	1,000	550	100
May 1	28.25	1,000	475	125	28.15	1,000	500	125	28.60	950	450	150	26.75	1,200	550	125	28.00	1,100	550	100	27.00	1,000	500	100
June 2	31.25	1,000	475	125	32.30	1,000	500	125	32.25	950	450	125	31.00	1,000	450	100	32.00	1,000	400	100	31.00	900	400	100
July 1	32.75	1,000	475	125	33.30	1,000	500	125	33.00	950	450	125	32.50	1,000	450	100	32.75	1,000	400	100	32.63	750	350	100
1919–20																								
Aug. 1	33.62	1,000	475	125	34.20	1,000	500	125	34.50	950	450	125	33.75	1,000	450	100	34.50	1,000	400	100	33.75	750	350	100
Sept. 2	29.87	1,000	475	125	30.65	1,000	500	125	31.20	950	450	100	31.00	1,000	400	100	32.50	1,000	400	100	30.00	750	350	100
Oct. 1	31.50	750	325	125	33.70	1,000	500	100	34.50	1,100	500	150	32.50	900	400	100	32.50	1,000	400	100	31.75	750	350	100
Nov. 1	37.00	900	500	175	40.60	1,000	500	150	40.50	1,200	600	200	38.50	1,200	550	125	40.00	1,000	500	125	38.00	800	400	125
Dec. 1	38.25	900	500	175	41.10	1,200	600	150	41.25	1,200	600	200	40.00	1,200	550	125	40.00	1,000	600	200	38.00	800	400	125
Jan. 2	40.00	1,000	600	200	42.50	1,200	600	200	42.00	1,500	750	200	40.50	1,000	800	125	40.50	1,100	700	200	39.50	1,100	550	175
Feb. 2	39.25	1,000	600	200	41.85	1,300	700	200	41.50	1,500	800	250	39.50	1,100	700	125	40.50	1,100	700	200	38.50	1,100	600	175
Mar. 1	39.50	1,000	600	200	41.65	1,300	700	200	40.00	1,500	800	250	39.00	1,100	700	125	39.00	1.450	750	200	39.00	1,100	600	175
Apr. 1	40.50	1,100	700	200	43.30	1,500	800	200	42.50	1,600	800	250	42.25	1,100	700	125	41.00	1,350	650	200	40.00	1,100	600	175
May 1	40.88	1,100	700	200	40.50	1,500	800	200	41.25	1,600	800	250	41.75	1,100	650	200	42.00	1,400	700	200	41.00	1,150	650	175
June 1	41.75	1,100	700	200	-------	1,500	800	200	39.75	1,800	900	250	40.50	1,300	700	200	40.50	1,650	900	250	40.50	1,150	650	175
July 1	41.00	1,400	900	250	38.50	1,800	1,000	200	38.75	1,800	900	250	40.00	1,500	850	250	40.00	1,550	800	250	40.00	1,500	850	225
1920–21																								
Aug. 2	38.75	1,400	900	250	36.05	1,800	1,000	200	36.00	1,800	900	200	39.50	1,500	850	250	39.50	1,650	900	250	40.25	1,500	850	225
Sept. 1	27.25	1,400	900	250	26.75	1,800	1,000	200	27.75	1,500	800	150	30.00	1,500	850	250	33.00	1,660	900	250	28.75	1,500	850	225
Oct. 1	23.50	850	400	150	22.00	1,600	800	150	22.25	1,150	600	150	24.00	1,200	600	200	26.00	800	400	200	23.50	1,500	850	200
Nov. 1	22.00	850	500	150	21.25	1,000	500	200	21.25	800	400	200	21.00	1,200	600	200	21.00	750	400	150	21.50	950	500	125
Dec. 1	15.50	800	500	200	14.70	850	500	200	15.25	750	450	300	15.50	800	500	200	15.00	750	400	150	15.25	850	500	200
Jan. 3	13.50	750	450	200	13.10	850	500	200	13.50	650	425	300	14.00	800	500	200	14.00	750	400	150	13.50	600	400	200
Feb. 1	13.50	725	425	200	12.45	850	500	200	13.00	600	400	250	14.00	800	500	200	14.50	750	350	200	13.50	600	400	200
Mar. 1	10.38	600	350	200	10.25	500	300	200	11.25	450	250	150	12.00	700	400	200	12.00	650	250	200	10.25	550	350	200
Apr. 1	11.00	500	300	150	10.50	500	300	200	10.90	450	250	150	11.25	500	275	200	11.50	550	250	150	10.75	500	300	150
May 2	11.50	475	275	150	11.35	450	275	150	11.70	400	200	100	11.00	450	250	150	11.25	500	200	125	10.75	500	300	150
June 1	11.25	450	225	100	11.00	450	275	150	11.80	400	200	100	11.50	450	250	150	11.75	500	200	125	10.75	400	200	125
July 1	10.75	400	175	100	10.15	425	250	125	11.00	400	200	100	10.25	450	250	150	10.50	450	200	125	9.88	400	200	100
1921–22																								
Aug. 1	11.63	400	175	100	10.90	425	225	100	12.10	350	150	50	11.00	450	250	150	11.00	450	200	125	11.00	350	150	100
Sept. 1	17.38	375	150	100	16.20	425	225	100	17.00	375	175	100	16.00	400	200	100	16.00	500	250	100	15.75	350	150	100
Oct. 1	20.25	425	200	100	20.60	425	225	100	21.25	400	200	125	20.75	400	200	100	21.00	500	250	100	20.00	400	200	100
Nov. 1	18.00	450	200	125	18.15	425	225	100	18.60	400	200	125	18.75	450	250	150	18.50	500	250	100	17.31	400	200	100
Dec. 1	16.50	450	200	125	16.70	425	225	100	17.15	400	200	100	17.50	500	250	125	18.00	500	250	100	16.38	400	200	100
Jan. 3	17.63	400	175	125	17.50	425	225	100	18.15	400	200	100	18.00	500	250	125	18.50	500	250	100	17.38	400	200	100
Feb. 1	15.88	400	175	125	15.85	425	225	100	16.25	400	200	100	16.50	500	250	125	16.75	400	200	100	15.50	400	200	100
Mar. 1	17.38	363	163	125	17.20	375	175	100	17.85	400	200	100	17.00	375	175	100	17.50	375	175	100	17.00	400	175	100
Apr. 1	17.13	338	163	75	16.95	375	175	100	17.40	350	150	75	16.75	375	175	100	17.00	375	175	100	16.25	363	163	100
May 1	17.25	325	125	75	17.10	350	150	100	17.60	350	150	75	17.25	325	125	100	17.50	325	125	125	16.50	275	125	88
June 1	20.38	275	100	75	19.95	350	150	100	20.70	350	150	100	20.00	325	125	100	20.50	325	125	125	19.75	275	125	88
July 1	21.63	275	100	75	21.50	350	150	100	22.15	350	150	100	21.50	325	125	100	22.50	325	125	125	21.50	275	125	88
1922–23																								
Aug. 1	22.38	275	100	75	22.30	350	150	100	22.70	350	150	100	22.00	325	125	100	22.50	325	125	100	22.25	275	125	88
Sept. 1	21.75	275	100	75	21.15	350	150	75	21.75	350	150	75	21.75	325	125	100	22.50	325	125	100	21.00	275	125	88
Oct. 2	20.38	200	100	75	19.30	325	125	75	19.90	350	150	75	20.00	275	100	75	20.50	325	125	75	19.31	275	125	75
Nov. 1	24.00	200	100	75	23.65	325	125	75	23.90	200	100	75	23.25	275	100	75	23.75	300	125	75	23.62	275	125	75
Dec. 1	24.75	150	75	63	24.30	225	87	75	25.00	175	75	50	25.25	225	87	75	25.25	200	75	50	24.44	200	87	75
Jan. 2	26.75	150	75	63	25.80	225	87	75	26.55	175	75	50	26.25	225	87	75	26.75	200	75	50	26.00	200	87	50
Feb. 1	27.56	150	75	63	26.50	225	87	75	27.50	200	100	50	27.25	225	87	50	27.88	200	75	50	27.50	150	50	50
Mar. 1	30.13	138	63	38	29.70	175	63	63	30.50	200	75	50	29.75	175	75	50	30.00	200	75	50	29.88	150	50	50
Apr. 2	27.75	138	63	38	27.60	175	63	63	28.35	200	75	50	28.50	175	75	50	29.00	200	75	50	27.75	150	50	50
May 1	26.75	138	63	38	26.10	175	63	63	26.80	200	75	50	27.50	175	75	50	28.25	200	75	50	26.50	150	50	50
June 1	27.50	138	63	38	26.40	175	63	63	27.00	200	75	50	26.75	175	75	50	27.50	200	75	50	27.00	150	50	50
July 2	27.63	138	63	38	27.10	175	63	63	27.60	200	75	50	28.00	175	75	50	28.25	200	75	50	27.25	150	50	50
1923–24																								
Aug. 1	22.75	200	100	50	22.65	275	100	50	22.90	225	100	50	23.50	250	100	50	22.75	200	100	50	23.00	200	88	38
Sept. 4	25.00	200	100	50	23.45	275	100	50	24.40	225	100	40	24.75	250	100	50	25.00	200	100	50	24.50	200	100	50
Oct. 1	28.00	300	150	75	27.65	300	125	62	28.40	350	150	60	28.50	325	125	75	28.75	200	100	50	28.00	225	125	50
Nov. 1	29.75	350	200	87	29.70	400	225	125	30.00	450	250	125	30.25	400	225	125	30.75	350	225	125	29.88	400	200	100

Appendix Table VII.—*Spot quotation for middling white cotton and differences "off" for good ordinary and low middling, and differences "on" for good middling in each of the designated markets on the first business day of each month, and average for all markets, August, 1915, to November, 1923*—Continued

[Middling price expressed in cents per pound, differences in points per pound; 100 points = 1 cent]

Year and month	Norfolk				Savannah				Boston				Galveston				New Orleans				Average			
	Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences			Spot price, middling	Differences		
		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling		Good ordinary	Low middling	Good middling
1915-16																								
Aug. 2	8.50	200	100	50	8.56	188	88	50	......	225	87	55	......	......	......	......	8.69	201	82	57	8.58	214	97	52
Sept. 1	9.38	200	100	50	9.13	188	88	50	......	230	92	50	9.50	220	105	35	9.31	201	82	57	9.13	213	97	45
Oct. 1	11.25	200	100	25	11.50	188	88	50	......	230	92	50	11.75	250	125	50	11.75	201	82	57	11.49	217	99	48
Nov. 1	11.50	200	100	25	11.75	188	88	50	......	230	92	50	11.80	250	125	50	11.75	201	82	57	11.65	217	99	48
Dec. 1	12.00	200	100	50	12.13	188	88	50	......	230	92	50	12.50	250	125	50	12.00	201	82	57	12.07	212	99	51
Jan. 3	11.75	200	100	50	12.00	188	88	50	......	230	92	50	12.30	210	85	50	11.88	176	69	57	11.99	200	91	51
Feb. 1	11.50	175	88	50	11.75	188	88	50	......	230	92	50	12.05	210	85	50	11.56	170	50	57	11.74	191	81	48
Mar. 1	11.25	175	88	50	11.50	188	88	50	......	230	92	50	11.60	190	85	50	11.13	150	50	57	11.32	177	76	48
Apr. 1	11.63	175	88	50	12.00	188	88	50	......	218	80	50	12.20	190	85	50	11.88	150	50	57	11.90	177	76	48
May 1	11.94	175	88	50	12.00	175	75	50	......	218	80	50	12.40	190	85	50	12.00	150	50	50	12.06	177	76	48
June 1	12.63	175	88	50	12.75	175	75	50	......	218	80	50	12.95	190	85	50	12.63	150	50	50	12.70	175	74	48
July 1	12.88	175	75	37	13.00	125	50	50	......	165	62	45	13.65	180	75	50	13.06	150	50	50	13.04	162	66	45
1916-17																								
Aug. 1	13.25	175	75	37	13.00	125	50	50	......	160	57	45	13.75	180	75	50	13.13	150	50	37	13.27	162	66	42
Sept. 1	15.88	175	75	37	15.88	100	50	25	......	160	57	25	16.00	180	75	30	15.63	150	50	37	15.68	159	66	32
Oct. 2	16.00	175	75	25	16.13	100	50	25	......	160	57	25	16.25	195	90	30	16.00	150	50	37	16.01	164	71	32
Nov. 1	18.50	175	75	25	18.75	100	50	25	......	160	57	30	18.60	175	70	50	18.13	150	50	37	18.47	157	66	34
Dec. 1	19.88	175	75	25	20.50	100	50	25	......	160	57	30	20.40	175	70	50	20.25	150	50	37	20.16	157	66	34
Jan. 2	17.25	175	75	25	18.25	100	50	25	......	160	57	36	17.50	175	70	50	17.13	150	50	37	17.44	157	66	36
Feb. 1	17.38	175	75	25	18.50	100	50	25	......	160	57	36	17.80	175	70	50	17.19	150	50	37	17.74	157	66	37
Mar. 1	17.00	175	75	25	18.50	100	50	25	......	160	57	36	16.90	175	70	50	16.50	150	50	37	16.84	157	66	37
Apr. 2	19.00	100	50	38	19.38	100	50	25	......	160	57	36	19.00	150	70	50	18.75	150	50	37	19.06	148	63	38
May 1	20.00	100	50	38	20.25	100	50	25	......	160	57	43	20.00	150	70	50	19.69	138	38	37	19.92	149	62	39
June 1	21.00	100	50	38	21.88	100	50	25	......	160	57	43	22.00	150	70	50	21.44	138	38	37	21.62	149	62	39
July 2	26.38	100	50	38	26.75	100	50	25	......	160	57	43	26.00	180	70	50	26.00	138	38	37	25.87	152	62	39
1917-18																								
Aug. 1	25.50	100	50	38	25.50	100	50	25	......	160	57	43	26.00	180	70	50	25.00	175	75	37	25.35	155	66	39
Sept. 4	22.50	100	50	38	21.75	100	50	25	......	160	57	43	21.65	180	70	30	21.75	163	63	50	21.97	154	64	37
Oct. 1	24.00	100	50	38	24.25	100	50	25	......	160	57	43	24.40	180	70	40	24.13	163	63	50	24.06	157	66	40
Nov. 1	27.63	150	50	38	27.75	150	75	50	......	160	57	50	27.15	205	95	40	27.75	188	88	50	27.48	171	73	43
Dec. 1	29.38	150	50	50	29.13	200	100	50	......	160	57	50	29.25	205	95	40	29.13	188	88	50	29.26	192	85	47
Jan. 2	30.25	175	75	50	30.38	200	100	50	......	160	57	50	30.75	205	95	50	30.38	188	88	50	30.51	201	90	50
Feb. 1	30.00	175	75	50	31.25	200	100	75	......	160	57	50	30.60	265	115	60	30.50	275	125	75	30.62	222	99	55
Mar. 1	31.50	225	100	63	31.50	200	100	75	......	160	57	50	32.15	380	155	60	32.00	300	150	75	31.96	250	114	61
Apr. 1	33.50	275	125	75	33.75	275	125	75	......	300	100	75	34.00	435	210	60	33.63	325	175	100	33.94	294	137	71
May 1	30.00	275	125	75	32.50	275	125	75	......	300	100	75	28.40	435	210	100	28.50	450	200	125	29.88	319	153	93
June 1	28.00	500	200	125	29.25	375	175	125	......	300	100	75	29.50	565	340	150	30.00	675	250	125	29.26	481	229	125
July 1	30.00	500	200	125	31.25	425	225	125	......	......	......	......	32.05	955	755	175	31.00	700	275	175	30.63	611	326	145
1918-19																								
Aug. 1	28.50	500	200	125	28.25	525	225	125	......	......	......	......	26.75	805	555	50	27.75	825	475	200	27.91	628	336	115
Sept. 3	35.75	800	225	125	35.25	600	250	100	......	......	......	......	36.35	805	505	50	34.50	725	375	150	35.38	676	326	101
Oct. 1	32.75	800	225	125	32.50	600	250	100	......	......	......	......	34.00	805	455	50	33.13	725	375	100	33.10	671	316	89
Nov. 1	26.50	800	225	50	30.00	600	250	100	......	......	......	......	29.25	805	455	100	28.90	725	375	100	28.51	696	326	86
Dec. 2	27.25	800	225	50	29.00	600	250	100	......	......	......	......	29.50	805	455	100	28.75	725	375	100	27.97	666	301	81
Jan. 2	29.50	800	225	50	31.00	600	250	100	......	......	......	......	31.75	805	455	100	30.75	725	375	100	30.63	731	338	90
Feb. 1	24.00	800	300	100	30.00	725	300	100	......	......	......	......	28.25	805	455	200	27.50	775	425	100	26.75	773	388	115
Mar. 1	24.50	950	350	100	27.00	950	300	100	......	......	......	......	28.25	905	455	200	26.75	1,050	650	100	26.33	1,046	541	120
Apr. 1	25.00	950	350	100	27.00	950	300	100	......	......	......	......	26.00	980	480	150	25.25	1,000	600	100	25.83	1,028	493	118
May 1	27.25	950	350	100	27.50	950	300	100	......	......	......	......	29.00	980	480	150	27.75	950	475	100	27.83	1,008	463	118
June 2	31.00	950	350	100	32.00	800	300	100	......	......	......	......	33.50	980	480	150	32.50	950	475	100	31.88	953	428	113
July 1	32.50	950	350	100	33.00	800	300	100	......	......	......	......	33.80	980	480	150	33.00	1,000	525	100	32.86	943	428	113
1919-20																								
Aug. 1	33.50	950	350	100	33.50	800	300	100	......	......	......	......	35.00	980	480	150	34.25	1,000	525	100	34.06	943	428	113
Sept. 2	31.25	950	250	100	30.63	800	300	100	......	......	......	......	31.50	980	480	150	31.25	1,000	525	100	30.99	943	413	110
Oct. 1	31.12	950	250	100	32.00	800	300	100	......	......	......	......	34.50	1,105	555	150	32.50	1,000	525	125	32.66	936	411	115
Nov. 1	37.00	950	250	100	38.25	800	300	100	......	......	......	......	40.50	1,330	675	250	H.	1,000	525	175	38.92	1,018	480	153
Dec. 1	38.00	950	400	150	39.25	900	400	100	......	......	......	......	41.75	1,330	675	250	39.25	1,050	600	175	39.69	1,053	533	165
Jan. 2	38.75	950	400	150	40.00	950	450	200	......	......	......	......	42.50	1,400	750	250	40.00	1,125	675	200	40.63	1,153	628	190
Feb. 2	39.00	1,000	550	200	39.50	1,000	550	200	......	......	......	......	42.25	1,550	900	250	39.88	1,200	750	200	40.17	1,185	685	200
Mar. 1	38.75	1,000	550	200	39.50	1,000	550	200	......	......	......	......	41.50	1,600	925	250	40.25	1,300	750	200	39.82	1,235	693	200
Apr. 1	39.50	1,000	600	200	41.00	1,000	550	200	......	......	......	......	43.25	1,600	925	250	41.00	1,350	825	300	41.43	1,270	715	210
May 1	40.50	1,000	600	200	41.50	1,000	550	200	......	......	......	......	42.00	1,600	925	250	41.00	1,525	900	350	41.24	1,298	728	223
June 1	H.	1,000	600	200	41.50	1,100	600	250	......	......	......	......	41.00	1,800	925	250	40.00	1,525	900	400	40.70	1,393	768	238
July 1	40.50	1,000	600	200	41.50	1,200	650	250	......	......	......	......	38.75	1,800	925	250	39.50	1,625	950	400	39.85	1,518	843	253
1920-21																								
Aug. 2	40.50	1,000	600	200	39.00	1,200	650	250	......	......	......	......	37.00	1,800	925	250	38.50	1,850	1,075	375	38.51	1,550	865	245
Sept. 1	32.00	1,200	600	200	28.50	1,200	650	250	......	......	......	......	30.00	1,800	925	250	29.25	1,850	1,075	325	29.33	1,540	855	235
Oct. 1	24.00	1,200	600	200	24.25	1,150	600	200	......	......	......	......	22.75	1,125	525	200	23.00	1,400	700	200	23.53	1,198	608	185
Nov. 1	21.50	900	500	200	22.00	900	500	200	......	......	......	......	21.25	950	450	200	H.	925	525	200	21.42	923	488	183
Dec. 1	15.00	900	500	200	15.75	850	450	200	......	......	......	......	15.75	750	375	300	15.50	800	500	200	15.32	810	468	215
Jan. 3	13.75	750	400	200	14.63	850	450	200	......	......	......	......	14.00	625	375	300	14.00	800	500	275	13.80	743	440	223
Feb. 1	13.50	750	400	200	15.00	800	425	250	......	......	......	......	13.50	625	375	300	13.75	750	450	275	13.67	725	423	228
Mar. 1	11.50	600	350	200	13.50	550	350	200	......	......	......	......	12.00	600	350	275	11.25	600	350	200	11.44	580	330	203
Apr. 1	11.25	500	300	200	11.75	400	200	125	......	......	......	......	11.50	450	250	275	11.50	450	275	175	11.19	480	270	178
May 2	11.50	500	275	100	12.00	400	200	125	......	......	......	......	11.60	450	250	200	11.50	450	275	175	11.42	458	250	143
June 1	11.63	500	275	100	11.63	350	175	75	......	......	......	......	12.00	450	250	200	11.75	425	250	150	11.51	438	230	128
July 1	10.50	500	250	50	11.00	325	150	75	......	......	......	......	11.25	400	200	150	11.00	425	225	100	10.63	418	210	108

APPENDIX TABLE VII.—*Spot quotation for middling white cotton and differences "off" for good ordinary and low middling, and differences "on" for good middling in each of the designated markets on the first business day of each month, and average for all markets, August, 1915, to November, 1923*—Continued

Year and month	Norfolk: Spot price, middling	Norfolk: Differences: Good ordinary	Norfolk: Differences: Low middling	Norfolk: Differences: Good middling	Savannah: Spot price, middling	Savannah: Differences: Good ordinary	Savannah: Differences: Low middling	Savannah: Differences: Good middling	Boston: Spot price, middling	Boston: Differences: Good ordinary	Boston: Differences: Low middling	Boston: Differences: Good middling	Galveston: Spot price, middling	Galveston: Differences: Good ordinary	Galveston: Differences: Low middling	Galveston: Differences: Good middling	New Orleans: Spot price, middling	New Orleans: Differences: Good ordinary	New Orleans: Differences: Low middling	New Orleans: Differences: Good middling	Average: Spot price, middling	Average: Differences: Good ordinary	Average: Differences: Low middling	Average: Differences: Good middling
1921–22																								
Aug. 1	11.75	400	200	100	11.50	325	150	75	......	......	......	......	12.25	350	150	100	11.75	375	175	100	11.49	388	183	100
Sept. 1	16.25	400	200	100	17.00	300	125	75	......	......	......	......	17.00	450	200	100	16.50	450	200	100	16.51	403	188	98
Oct. 1	20.25	400	200	100	20.75	400	200	100	......	......	......	......	21.75	500	250	100	20.50	550	200	100	20.75	440	213	103
Nov 1	17.88	400	200	100	18.25	400	200	100	......	......	......	......	18.85	500	250	100	18.50	575	225	100	18.28	450	220	110
Dec. 1	16.63	400	200	100	16.63	400	200	125	......	......	......	......	17.50	500	250	100	17.00	475	200	100	17.00	445	218	108
Jan. 3	17.75	400	200	100	18.00	400	200	125	......	......	......	......	18.40	475	225	100	17.50	450	175	100	17.88	435	210	108
Feb. 1	16.13	400	200	100	15.75	400	200	125	......	......	......	......	16.20	475	225	100	15.38	400	175	100	16.02	420	205	108
Mar. 1	17.50	350	150	100	17.63	375	175	100	......	......	......	......	18.00	425	175	100	17.25	375	150	100	17.43	381	171	103
Apr. 1	17.25	350	150	100	17.13	350	150	75	......	......	......	......	17.45	425	175	100	16.63	325	125	100	16.99	363	160	93
May 1	17.63	350	150	100	17.38	250	100	75	......	......	......	......	17.75	350	150	100	17.12	325	125	100	17.31	323	133	94
June 1	20.25	350	150	100	20.25	188	88	75	......	......	......	......	20.70	350	150	100	20.50	350	150	100	20.30	314	131	96
July 1	21.50	250	100	100	21.52	200	100	75	......	......	......	......	22.35	350	150	100	21.50	350	150	100	21.77	305	128	96
1922–23																								
Aug. 1	22.50	250	100	100	22.30	200	100	75	......	......	......	......	22.75	350	150	100	22.50	325	125	100	22.42	303	125	94
Sept. 1	21.75	250	100	100	21.66	200	100	75	......	......	......	......	21.90	350	150	75	21.75	325	125	100	21.70	303	125	86
Oct. 2	20.25	250	100	100	20.25	200	100	75	......	......	......	......	20.00	350	150	75	20.00	325	125	75	19.99	288	120	78
Nov. 1	24.13	250	100	100	24.13	200	100	75	......	......	......	......	24.00	350	150	75	H.	275	100	63	23.83	265	113	76
Dec. 1	24.81	175	75	63	24.80	150	75	63	......	......	......	......	25.05	250	100	60	25.25	250	75	50	24.89	200	81	65
Jan. 2	26.56	175	75	63	26.67	150	75	63	......	......	......	......	26.45	175	75	40	26.50	250	75	50	26.43	193	79	58
Feb. 1	27.63	125	50	50	27.38	138	63	31	......	......	......	......	27.50	175	75	40	27.62	250	75	50	27.43	184	74	51
Mar. 1	30.25	125	50	50	30.27	138	63	31	......	......	......	......	30.50	175	75	40	30.13	200	75	50	30.11	168	66	47
Apr. 2	28.13	125	50	50	28.00	163	63	31	......	......	......	......	28.50	175	75	40	28.00	200	75	50	28.16	170	66	47
May 1	26.63	125	50	50	26.20	163	63	31	......	......	......	......	27.00	175	75	40	27.00	200	75	50	26.87	170	66	47
June 1	26.50	125	50	50	27.00	163	63	38	......	......	......	......	27.30	175	75	40	28.50	200	75	50	27.15	170	66	48
July 2	27.13	125	50	50	27.40	163	63	38	......	......	......	......	27.60	175	75	40	28.00	250	100	50	27.60	175	69	48
1923–24																								
Aug. 1	22.63	150	50	50	23.00	163	63	38	......	......	......	......	23.15	250	100	40	22.75	250	100	50	22.91	216	90	47
Sept. 4	24.88	150	50	50	24.75	200	100	50	......	......	......	......	24.40	275	125	40	24.50	250	100	50	24.56	223	98	48
Oct. 1	28.13	200	150	50	28.20	300	150	75	......	......	......	......	28.50	350	150	60	28.50	300	150	75	28.26	285	133	63
Nov. 1	29.75	300	150	75	29.78	400	200	100	......	......	......	......	30.25	550	250	110	H.	450	250	112	30.01	405	218	108

APPENDIX TABLE VIII.—*Quotation committee and methods of establishing spot quotations and differences in the 10 designated spot markets* [1]

Market	Quotation committee: Composition	Quotation committee: By whom appointed	Quotation committee: Term of membership	Quotation committee: Meetings	Quotation committee: Number required to determine quotation	Is there a committee on the quotation of differences separate from quotation committee?
Augusta	5 members: 2 factors, 2 dealers, and chairman.	President	2 months	Daily, at close of market	Majority of those present, 3 being a quorum.	Yes. A revision committee acts for term of 1 year.
Dallas	5 members: 4 merchants, 1 broker	do	1 year	do	do	No.
Galveston	3 members	do	60 days	do	A majority of those present, 1 being a quorum.	No.
Houston	5 members: 2 factors, 2 buyers, or 1 broker in lieu of either, and chairman, either factor or buyer.	do	2 months	do	3	No.
Little Rock	5 members: 2 factors, 2 dealers, and chairman, alternately factor and dealer.	do	60 days	do	3, if unanimous, otherwise quotations are averaged.	No.
Memphis	do	Board of directors.	1 month	Daily, between 12 noon and 1 p. m.	3	No.
Montgomery	5 members: Warehousemen and dealers about equally divided.	Secretary	1 to 3 months	Secretary gets in touch with members at close of market	3	No.
New Orleans	3 members of the board of classers employed by the exchange, whose business is to class and quote cotton for the exchange exclusively.	Board of directors.	1 year	Daily; 2 p. m., except in summer, 1 p. m.	2	No.
Norfolk	3 members: 1 factor, 1 buyer, and chairman, alternately buyer and factor.	President	1 month	Daily at close of market	2	No.
Savannah	5 members: 3 factors and 2 exporters, then 2 factors and 3 exporters.	Board of directors	do	do	3	No.

[1] The data in this table are compiled from schedules returned by the exchanges and in some particulars are not altogether consistent with information secured by agents of the commission through interviews with members of the quotation committees and others.

APPENDIX TABLE VIII.—*Quotation committee and methods of establishing spot quotations and differences in the 10 designated spot markets*—Continued

Market	Information on which quotations are based									
	Source of—	If required from exchange members							Use made of middling price information	
		From what classes	Nature of information				Grade and staple verified	Reported prices averaged	Establishing a basis which is applied to closing New York future	Establishing quotation without regard to closing New York future
			Quantity	Grade	Staple	Price (or basis)				
Augusta	Actual transactions and judgment of committee.	Not required							Yes	No.
Dallas	Committee's general knowledge of actual sales.	do							Yes	No.
Galveston	Transactions in futures and general knowledge.	do							Yes	No.
Houston	Actual transactions and judgment of committee.	Factors	Yes	No	No	Yes	Grade and staple not reported.	(1)	Yes	No.
Little Rock	Actual transactions as far as possible.	Buyers and factors	Yes	No	No	Yes	do	(1)	No	Yes.
Memphis	Actual sales made by members of committee and general knowledge of market.	Not required							No	Yes.
Montgomery	Actual transactions, but at times on general knowledge of market	Buyers and sellers	Yes	Average grade.	No	Yes	Information from both buyer and seller.	Yes	(2)	(2)
New Orleans	Actual transactions except, when there are none, the committee may use bona fide bids and offers.	Buyers, sellers, factors, and dealers.	Yes	Yes	Yes	Yes	By quotation committee and member of United States Board of Cotton Examiners.	Yes	No	Yes
Norfolk	Actual transactions	Buyers, sellers, and factors.	Yes	Yes	No	Yes, and basis.	Information from both buyer and seller.	(2)	Yes	No.
Savannah	Judgment of the committee	Not required							Yes	No.

[1] Not stated.
[2] Prices are altered to conform to the future market at close.

Market	Quotations are for cotton—											
	Sold								Of staple length	In lots		
	Exwarehouse	On sample	On type	On description	To arrive	Basis middling	By dealers	By factors		Even-running	Round	Of size
Augusta	Yes	(1)	(1)	(1)	(1)	Yes	Yes	Yes	⅞-inch staple	(1)	(1)	(1).
Dallas	(1)	(1)	(1)	(1)	(1)	Yes	(1)	(1)	(1)	(1)	(1)	100 bales or more.
Galveston	(1)	(1)	(1)	(1)	(1)	(1)	(1)	Cotton sold factor's terms.	⅞-inch staple	(1)	(1)	(1).
Houston	No	Yes	No	No	No	Yes	Yes	Yes	Based on average of cotton received.	No	No	Any quantity.
Little Rock	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	⅞-inch staple and better.	Yes	Yes	Do.
Memphis	No	Yes	No	No	No	No	No	Yes	(1)	No	No	(1).
Montgomery	Yes	Yes	No	No	No	No	No	Yes	⅞-inch staple	No	Yes	Any quantity.
New Orleans	Yes	Yes	No	No	No	Yes	Yes	Yes	do	Yes	Yes	Do.
Norfolk	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	do	Yes	Yes	Do.
Savannah	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	do	No	No	Do.

[1] Not stated.

Appendix Table VIII.—*Quotation committee and methods of establishing spot quotations and differences in the 10 designated spot markets*—Continued

Market	Reported nominal	How a quotation is made for a grade no sale of which has been made: If sale of other grade or grades has been made, determined by—	If no spot-cotton sale of any grade has been made, determined by—: Last preceding quotation	Bids and offers	Hedged cotton sales	Other cotton sales	Changes in future quotations
Augusta	Yes	Judgment of committee	[1]	[1]	[1]	[1]	[1].
Dallas	Yes	[1]	[1]	[1]	[1]	[1]	[1].
Galveston	No	[1]	[1]	[1]	[1]	[1]	[1].
Houston	Yes	Reference to other grades of like value.	[1]	[1]	[1]	[1]	[1].
Little Rock	No	[1]	[1]	Considered	[1]	[1]	[1].
Memphis	Yes	Relative value compared with other grades.	[1]	[1]	[1]	[1]	[1].
Montgomery	Yes	Information secured by canvass of the members.	[1]	[1]	[1]	[1]	[1].
New Orleans	Yes	[1]	Last preceding quotation taken under certain conditions.	Considered	Considered	Considered	Considered.
Norfolk	Yes	Last sale of the grade	Quotation based on last sale of the grade	[1]	[1]	[1]	[1].
Savannah	Yes	Existing differences	Grade is quoted according to existing differences.	[1]	[1]	[1]	[1].

[1] Not stated.

Appendix Table IX.—*Monthly average spreads between the 10 designated spot-cotton markets and the May option at New York and New Orleans in cents per pound, 1915–16 to 1922–23*[1]

A. NEW YORK

	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23
August	+1.56	+0.75	−0.99	−0.71	+0.23	−7.87	+1.94	−0.11
September	+1.46	+.89	−.26	−.77	+.28	−5.38	−.11	+.47
October	+.96	+.89	−.74	−1.54	−1.94	−1.48	−.89	+.45
November	+.75	+.72	−1.08	−2.68	−6.15	−.53	−.21	−.03
December	+.69	+.15	−.49	−3.75	−6.98	+.62	+.02	+.24
January	+.47	+.07	−.55	−4.84	−5.88	+.84	+.17	+.27
February	+.21	−.65	−.89	−4.92	−5.79	+.63	+.57	+.12
March	+.06	−.13	−.78	−2.65	−3.37	+.70	+.77	+.23
April	−.07	+.32	−2.28	+.01	−.70	+.92	+.99	+.38
May	+.09	+.23	−3.86	+.57	−.38	+.96	+1.37	+.53
June	+.62	+.75	----------	−1.40	−8.71	+3.02	−.72	−4.73
July	+.47	−.28	−5.35	+.35	−9.90	+2.32	−.87	−3.33

B. NEW ORLEANS

	1915–16	1916–17	1917–18	1918–19	1919–20	1920–21	1921–22	1922–23
August	+1.30	+0.62	−1.73	−1.35	−0.12	−8.36	+1.53	−0.56
September	+1.27	+.72	−.88	−1.55	−.06	−6.00	−.47	−.04
October	+.87	+.62	−1.45	−2.34	−2.14	−2.03	−1.33	−.02
November	+.67	+.40	−1.90	−3.11	−5.96	−1.21	−.69	−.43
December	+.61	−.27	−1.38	−4.09	−6.59	−.06	−.51	−.17
January	+.34	−.41	−1.61	−4.90	−5.03	+.25	−.57	−.22
February	−.02	−1.09	−1.91	−4.48	−5.18	+.23	−.42	−.21
March	−.12	−.63	−1.88	−2.86	−3.34	+.32	−.47	−.34
April	−.23	−.53	−3.19	−1.16	−1.70	+.58	−.12	−.32
May	−.08	−.26	−3.39	+.11	−1.43	+.57	+.14	−.15
June	----------	+.19	----------	----------	−9.41	----------	−1.50	−4.95
July	+.33	−.95	----------	.00	−10.13	+1.65	−1.41	−3.74

[1] When there is a shortage of quotations for some days in any month, which occurs especially for the futures in the delivery month owing to the 5-day notice rule, the series of quotations for the other (e. g., the spot) market is correspondingly shortened. Prices used are for the close.

Appendix Table X.—*Purchases and sales of New York cotton futures (hundreds of bales) by certain large cotton merchants, half-monthly, all options combined, 1919–20 to 1922–23*

Half month	1919–20		1920–21		1921–22	
	Purchases	Sales	Purchases	Sales	Purchases	Sales
Aug. 1–15	1,145	838	825	676	1,586	1,695
Aug. 16–31	472	396	2,127	1,771	1,384	1,239
Sept. 1–15	678	718	1,233	1,262	1,983	1,616
Sept. 15–30	1,980	2,314	2,088	2,403	3,667	3,493
Oct. 1–15	1,500	2,037	1,851	2,181	2,302	1,832
Oct. 16–31	1,782	2,291	1,745	1,719	1,783	1,787
Nov. 1–15	2,094	1,822	819	873	1,896	1,534
Nov. 16–30	1,890	1,601	2,448	2,841	1,431	1,123
Dec. 1–15	2,322	2,559	1,814	2,009	1,582	1,467
Dec. 16–31	919	1,173	1,697	2,164	1,269	1,007
Jan. 1–15	1,648	1,307	2,463	2,951	1,408	922
Jan. 16–31	1,036	714	1,110	2,314	3,129	2,497
Feb. 1–15	1,442	1,049	697	909	1,303	1,510
Feb. 16–28	807	659	3,807	3,616	3,987	3,602
Mar. 1–15	1,206	1,057	1,339	1,211	1,578	1,874
Mar. 16–31	1,366	986	1,191	1,110	1,488	1,367
Apr. 1–15	979	975	1,119	1,239	601	895
Apr. 16–30	1,622	1,128	1,618	1,949	1,069	2,168
May 1–15	1,098	753	464	905	2,360	3,739
May 16–31	944	838	667	935	2,177	2,706
June 1–15	725	465	785	996	3,824	3,468
June 16–30	1,050	784	2,781	2,407	3,924	2,336
July 1–15	723	786	743	903	767	654
July 16–31	859	877	453	706	969	946
Total	30,287	28,127	35,884	40,050	47,467	45,477

APPENDIX TABLE XI.—*Net position in futures (open trades) in hundreds of bales, of certain large cotton merchants at New York and all (three) other futures markets, half-monthly, all options combined, 1919–20 to 1922–23.*

Date	1919–20		1920–21		1921–22	
	New York	Three markets	New York	Three markets	New York	Three markets
Aug. 15[1]	1,615	1,432	387	70	4,037	4,157
Aug. 31	1,539	1,376	743	736	3,892	4,139
Sept. 15	1,579	1,397	714	754	3,525	4,335
Sept. 30	1,913	1,604	399	470	3,351	4,436
Oct. 15	2,450	2,197	69	170	2,881	4,077
Oct. 31	2,959	2,457	95	111	2,885	4,008
Nov. 15	2,687	2,227	41	138	2,523	3,626
Nov. 30	2,398	1,868	352	214	2,215	3,423
Dec. 15	2,635	2,030	547	411	2,100	3,297
Dec. 31	2,889	2,033	1,014	646	1,838	3,310
Jan. 15	2,548	2,229	1,508	1,135	1,352	2,818
Jan. 31	2,226	1,996	2,706	2,459	720	1,870
Feb. 15	1,833	1,572	2,918	2,811	927	2,160
Feb. 28	1,685	1,364	2,727	2,615	542	2,090
Mar. 15	1,536	1,125	2,599	2,752	838	2,444
Mar. 31	1,156	708	2,518	2,916	717	2,241
Apr. 15	1,152	534	2,638	3,116	1,011	2,205
Apr. 30	658	195	2,969	3,509	2,110	2,590
May 15	313	214	3,410	4,041	3,489	3,646
May 31	207	233	3,678	4,346	4,018	4,189
June 15	53	135	3,289	4,516	3,662	3,955
June 30	319	37	3,515	3,684	2,074	2,634
July 15	256	53	3,675	3,767	1,961	2,421
July 31	238	27	3,928	4,026	1,938	2,165
Net average sales, open	1,463	1,206	1,756	1,890	2,275	3,177
Average sales (transactions) per month at New York	2,344	----------	3,338	----------	3,790	----------
Ratio of open trades to sales per month at New York	0.62	----------	0.53	----------	0.60	----------

[1] Net open trades at July 31, 1919 were: New York, *1,922*; three markets, *1,628*.

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THE COTTON TRADE

LETTER

FROM

THE CHAIRMAN OF THE FEDERAL TRADE COMMISSION

TRANSMITTING

A REPORT OF THE FEDERAL TRADE COMMISSION ON THE COTTON TRADE

IN RESPONSE TO SENATE RESOLUTIONS NO. 262, MARCH 16 (CALENDAR DAY, MARCH 29), 1922, SIXTY-SEVENTH CONGRESS, SECOND SESSION, AND NO. 429, JANUARY 29 (CALENDAR DAY, JANUARY 31), 1923, SIXTY-SEVENTH CONGRESS, FOURTH SESSION

IN TWO PARTS

PART II

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1924

APPENDIX TABLE XI.—*Net position in futures (open trades) in hundreds of bales, of certain large cotton merchants at New York and all (three) other futures markets, half-monthly, all options combined, 1919–20 to 1922–23.*

Date	1919-20		1920-21		1921-22	
	New York	Three markets	New York	Three markets	New York	Three markets
Aug. 15 [1]	1,615	1,432	387	70	4,037	4,157
Aug. 31	1,539	1,376	743	736	3,892	4,139
Sept. 15	1,579	1,397	714	754	3,525	4,335
Sept. 30	1,913	1,604	399	470	3,351	4,436
Oct. 15	2,450	2,197	69	170	2,881	4,077
Oct. 31	2,959	2,457	95	111	2,885	4,008
Nov. 15	2,687	2,227	41	138	2,523	3,626
Nov. 30	2,398	1,868	352	214	2,215	3,423
Dec. 15	2,635	2,039	547	411	2,100	3,297
Dec. 31	2,889	2,033	1,014	646	1,838	3,310
Jan. 15	2,548	2,229	1,502	1,135	1,352	2,818
Jan. 31	2,226	1,996	2,706	2,459	720	1,870
Feb. 15	1,833	1,572	2,918	2,811	927	2,160
Feb. 28	1,685	1,364	2,727	2,615	542	2,090
Mar. 15	1,536	1,125	2,599	2,752	838	2,444
Mar. 31	1,156	708	2,518	2,916	717	2,241
Apr. 15	1,152	534	2,638	3,116	1,011	2,205
Apr. 30	658	195	2,969	3,509	2,110	2,590
May 15	313	214	3,410	4,041	3,489	3,646
May 31	207	233	3,678	4,346	4,018	4,189
June 15	53	135	3,889	4,516	3,662	3,955
June 30	319	37	3,515	3,684	2,074	2,634
July 15	256	53	3,675	3,767	1,961	2,421
July 31	238	27	3,928	4,026	1,938	2,165
Net average sales, open	1,463	1,206	1,756	1,890	2,275	3,177
Average sales (transactions) per month at New York	2,344		3,338		3,790	
Ratio of open trades to sales per month at New York	0.62		0.53		0.60	

[1] Net open trades at July 31, 1919 were: New York, *1,922*; three markets, *1,628*.

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IN RESPONSE TO SENATE RESOLUTIONS NO. 262, MARCH 16 (CALENDAR DAY, MARCH 29), 1922, SIXTY-SEVENTH CONGRESS, SECOND SESSION, AND NO. 429, JANUARY 29 (CALENDAR DAY, JANUARY 31), 1923, SIXTY-SEVENTH CONGRESS, FOURTH SESSION

IN TWO PARTS

PART II

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PART II

Hearings Before the Federal Trade Commission on the Cotton Trade, November 6–8, 1923

PART II

HEARINGS BEFORE FEDERAL TRADE COMMISSION ON THE COTTON TRADE

NOTE.—The commission deemed it necessary to edit the transcript of the hearings on account of the numerous errors arising from the technical character of the subject and other circumstances which rendered many statements unintelligible as reported. The transcript has, however, been printed verbatim, except that misspelled words, punctuation, and other obvious typographical errors of a similar character have been corrected without notation of that fact. Passages requiring the substitution of words have been printed in italics and the substituted passages follow directly in brackets. The numerous omitted words, both those which were obviously omitted and those apparently necessary to make sense, have been inserted in their proper position in brackets. Where there was a lack of certainty as to whether such changes were correct, this has been indicated by an interrogation point in the bracket. Where words, expressions, sentences, or paragraphs could not be interpreted this fact has been indicated by italicizing them, and by a bracketed interrogation point at the end.

WASHINGTON, D. C., *November 6, 1923—10 a. m.*

Before the Federal Trade Commission. Conference between the Federal Trade Commission and representatives of cotton exchanges, associations and producers.

The above-entitled matter was convened in the hearing room of the Federal Trade Commission at the date and time above stated.

Before Commissioners Murdock (chairman), Thompson, Nugent, and Van Fleet.

The following-named gentlemen were present at the conference:

L. A. Adams, Washington, D. C., representing the Department of Agriculture; W. P. Barbot, New York Cotton Exchange, representing the Department of Agriculture; U. B. Blalock, Raleigh, N. C., representing N. C. Growers' Cooperative Association; Chas. T. Branham, Washington, D. C., representing the Department of Agriculture; W. J. Britton, Memphis, Tenn., representing Memphis Cotton Exchange; Edw. S. Butler, New Orleans, La., representing New Orleans Exchange; Thos. F. Cahill, New York City; W. L. Clayton, Houston, Tex., representing New York Cotton Exchange and Houston Cotton Exchange; Julius W. Cone, Greensboro, N. C., representing New York Cotton Exchange; A. B. Cox, Washington, D. C., representing Bureau of Economics; R. C. Dickerson, Waco, Tex., representing Texas Cotton Association; R. L. Dixon, Dallas, Tex., representing Texas Cotton Association; S. F. Dribbers, New York City, representing Association of Cotton Textile Mechanics;

H. H. Ellison, Augusta, Ga., representing Augusta Cotton Exchange; Jno. F. Finke, jr., New Orleans, La., representing New Orleans Cotton Exchange; R. C. Fulbright, Houston, Tex., representing Houston Cotton Exchange.

J. W. Garrow, Houston, Texas, representing Houston Cotton Exchange and Texas Cotton Association; E. J. Glenny, New Orleans, La., representing New Orleans Cotton Exchange; J. L. Goldman, Dallas, Texas, representing Dallas Cotton Exchange; G. Arthur Gordon, Savannah, Ga., representing Savannah Cotton Exchange; Robt. E. Gores, Houston, Texas, representing Weatherford Crump Co.; W. S. Griffin, Greenville, S. C., representing New York Cotton Exchange; Baylis E. Harriss, Galveston, Texas, representing Galveston Cotton Exchange; Chas. G. Henry, Little Rock, Ark., representing Arkansas Growers Cooperative Association; Thomas J. Hogan, Norfolk, Va., representing Norfolk & Portsmouth Exchange; C. B. Howard, Atlanta, Ga., representing American Cotton Growers Exchange; Wm. M. Howard, Augusta, Ga., representing Augusta Cotton Exchange; William P. Jenks, New York City, representing New York Cotton Exchange; Harvie Jordan, St. Matthews, S. C., representing American Cotton Association; F. W. Knight, Washington, D. C., representing the Bureau of Agricultural Economics; Theo. Marcus, Dallas, Texas, representing the Texas Cotton Association; Benjamin C. Marsh, Washington, D. C., representing Farm Labor Union of America; B. F. Martin, Jackson, Miss., representing Mississippi R. R. Commission; Wm. R. Meadows, Washington, D. C., representing the Department of Agriculture; M. C. Moore, Jackson, Miss., representing Mississippi R. R. Commission; Mortimer W. Palmer, Washington, D. C., representing the Department of Agriculture; H. M. Rankin, New Orleans, representing New Orleans Cotton Exchange; Henry M. Steece, Washington, D. C., representing experimental stations (Agriculture); Randau N. Durfee, Fall River, Mass., representing National Association Cotton Manufacturers and Fall River Manufacturers Association.

The Chairman. The conference will be in order, and you gentlemen will take your seats. There is a slip here which the stenographer asks that you all sign for the purposes of identification, and we have found here, in the conduct of these meetings, that in order to keep a record, which is very helpful to the commission after you gentlemen have gone, it is necessary when a man addresses himself to the commission for him to identify himself by naming himself. I know that is rather embarrassing, but with a little practice the embarrassment rubs off, and it is quite essential to keep the record straight.

I want to say, by way of preliminary, that it is as much your meeting as it is ours, the commission's. We do not want to limit anyone or to make too rigid a channel through which we may receive information and enlightenment, *and* [nor] so far as this can be done consistently with expedition, shut off anyone from anything that he has that he wants to say; and I have a tentative plan here in my mind as to how we shall get at this thing.

The Senate passed a resolution last winter, No. 429, in which they directed this Federal Trade Commission to make inquiry into various phases of the cotton industry, for the purpose of providing Congress with information to serve as a basis for legislation. Since that resolution was passed the commission has been preparing a report in response to that resolution, and in the course of that preparation certain matters have come up upon which the commission wants information; and while I do not mean now to confine any expression here to the subject that we are anxious to know about, yet I think it will be helpful if I will direct your attention to the particular things in which we are interested for the time being in the preparation of this report.

The first one is the question of southern warehouse deliveries. The next one is the advisability or inadvisability of a revision of the present future contract, and the third proposition that we are interested in is the advisability of a revision or in the inadvisability of a revision of the provision for the establishment of differentials in the delivery of cotton, other than the basis cotton, and the machinery by which the *stock* [spot] cotton or cash cotton quotation is arrived at.

All three of these subjects, of course, are much more familiar to you gentlemen than they are to me, and it strikes me that there must be on all three of them pros and cons. There must be men here who have very good reasons to believe that a southern warehouse delivery is not the thing, and there must be men here who believe that it is the thing. Similarly, on the second proposition, there must be men here who believe that the present future contracts should stand, and there are many who believe that it ought to be changed. And, similarly, on the third proposition, there must be a group here who believe the present way of establishing differentials on delivered cotton, and the method of arriving at the cash quotation or the *stock* [spot] quotation, which you will recall is the average of five *stock* [spot] markets at a given moment, that there must be a pro to that and there must be a con to that.

Now then, I can think of no better way to get at this proposition—and if there is a better way I would be glad to have it, and I know the commission would—than to have different groups here caucussed in a preliminary way, and select from some of their number a spokesman who can present, or spokesmen who can present, the views of the group, both the pro and con side, if it is apparent, to the commission. I do not mean by that and the commission does not mean to exclude anybody who wants to speak, and it is only done for the purpose of expediting the proposition, because in these later days we are all able to talk more or less freely in public and if we all make speeches we would not make much speed.

I notice from this list here of those who answered the invitation of the commission, that there are in the list men from the New York Cotton Exchange. That is true? Are they present?

Mr. Cahill. Yes, sir.

The Chairman. Are there men present from the New Orleans Cotton Exchange?

Mr. Butler. Yes, sir. The New Orleans Cotton Exchange has a delegation of four.

The Chairman. Are there men here from the exchanges which are spot exchanges and not futures?

Mr. Harriss. Yes, sir. I represent the Galveston Exchange.

Mr. Clayton. The Houston Cotton Exchange is represented.

The Chairman. Is it the wish of the men upon the exchanges to caucus together, or would they like to caucus separately?

Mr. Cahill. Mr. Chairman, I am here not representing the Cotton Exchange. I *happened* [happen] to be a member of the exchange, but I am not representing the exchange.

The Chairman. Senator Nugent suggests that the letter of invitation which was sent to you gentlemen suggested that each group should confine its spokesmen to two. I think that that will be agreeable to everybody, but I was very anxious here Senator, not to allow the impression to get out that anybody is being curtailed. This is a difficult subject, and there may be various views, and while we have to proceed in order, if anyone wants to relieve himself of an idea I think we can arrange for it to be done and not hold too rigidly to that proposition, although the commission hopes that it may be confined to the two spokesmen.

Is there any suggestion here on the score of the first group? Do you want to caucus together or do you various men from the various exchanges want to caucus separately? It would expedite things if you would all go into one caucus, the exchange men, and select a pro and a con speaker.

Mr. Butler. Mr. Chairman, we represent the sentiment of the New Orleans Cotton Exchange, and there would not be any particular interest in our caucusing, I think.

Mr. Jenks. Mr. Chairman, I am a member of the New York Cotton Exchange, and we have several representatives here. I think, inasmuch as the members of the New York Cotton Exchange are very much divided on this subject and wish to do what the trade want to do, we had better have a caucus to determine who shall be our speakers, because we represent both sides of the question.

The Chairman. Then, I gather, from the expression of both of you gentlemen who have spoken, that you prefer to caucus separately; the exchange men prefer to caucus separately. Is that right?

Mr. Butler. It is not necessary for New Orleans to caucus separately. We have no divided opinion in the New Orleans Cotton Exchange. We are of one sentiment on this subject.

The Chairman. A caucus does not necessarily have to be within four walls with the door shut.

Mr. Butler. I think it would probably be a needless conference, as we would not arrive at anything.

Mr. Marcus of Dallas. Our committee, Mr. Chairman, has come here with an open mind. We do not know which side of this proposition we favor, and we would like to hear from the future people first; that is, the New York and New Orleans Cotton Exchanges, and get their views of this question or the several questions that are before us, and then we would like to have the privilege of caucusing for a little while to determine where we stand, and give you then our views.

The Chairman. *Is that* [that is] agreeable to this commission, this proposition? [.] The Dallas exchange is on record as favoring southern warehouse delivery, isn't it?

Mr. Goldman (Dallas, Tex.). That is not my understanding. We came here to represent the exchange with an open mind.

The Chairman. I see. But you have previously passed a resolution to the effect that you favored it.

Mr. Goldman. I am not sure of that.

The Chairman. Well, that is irrelevant anyhow.

Mr. Goldman. If it was passed, it was passed some time ago. It was not a recent meeting.

The Chairman. All right. Then it is understood, and if there is objection I would like to hear it, that giving the largest sort of definition to this word "caucus," the different groups in the exchange will hand up to the commission the names of the spokesman that they desire to be heard, with an indication, I should say, of whether they are for southern warehouse delivery or against it.

Is that right? Is that the understanding?

Mr. Fulbright (of Houston, Tex.). I presume you mean, Mr. Chairman, whether or not the particular representative is for or against, because some of the organizations have not declared themselves.

The Chairman. Certainly. You have gotten my meaning exactly. Then I think that in the same breath it would be well to compose the difficulty on the second question, whether or not that spokesman representing a particular group is going to talk for or against the advisability of revising that future contract, and if it can be done, that he be placed on the matter of the establishment of differentials, a change in that method. If that is understood, we will go ahead on that basis. You will find, I suppose, that that will present some difficulty, but I think we can iron those out as they appear. Now, what about the associations of the spinners here? Are they represented?

Mr. Durfee. Mr. Chairman, I represent the National Association of Cotton Manufacturers and the Fall River Manufacturers' Association.

The Chairman. Are you alone here?

Mr. Durfee. I think I am alone.

The Chairman. Then naturally you would be your spokesman. Is that right?

Mr. Durfee. Yes, sir. And if the commission allows, I should like to speak to-day, because I have a very important meeting to-morrow, so that I will not be able to be here to-morrow. I would like to do that if I could.

The Chairman. I do not know whether that can be arranged or not. I do not know whether we can or not. The associations of producers—are they here?

Mr. Marsh. My name is Benjamin C. Marsh, and I am director of the farmers' national organization, and the Farm Labor Union of America, which is affiliated with the organization, has asked me to represent them and present their statement during the conference. They have about 340,000 members, and probably produce at least one-half or two-thirds of the cotton produced in the United States.

The Chairman. Are there other members of producers' associations present?

Mr. Jordan (St. Matthews, S. C.). I represent the American Cotton Association.

The Chairman. That is an association of producers, is it?

Mr. Jordan. Producers, manufacturers, and other departments of the cotton trade.

The Chairman. Now, I suggest—are you, so far as you know, Mr. Jordan, the only member here besides Mr. Marsh?

Mr. JORDAN. I do not know of any other member of our association who is here and representing the association.

The CHAIRMAN. Then I suggest that you gentlemen divide yourselves as you see fit, in as few number of groups as possible, and where it is necessary, select a spokesman pro and con in this matter, or in the absence of a con and pro and in the presence of a con and pro, submit the names to the chairman so that we may take up further procedure. Unless you are ready, we will take a recess of 10 or 15 minutes.

Mr. HARRISS. I am the only spokesman for the Galveston Cotton Exchange, and I might say that our exchange, briefly, is opposed to any change whatever in anything.

Mr. HOWARD (Atlanta, Ga.). I am Mr. C. B. Howard, Atlanta, Ga., general sales manager of the American Cotton Growers Exchange. I represent twelve of the cooperative cotton States, twelve of the States organized in the cooperative selling of cotton.

The CHAIRMAN. I think we could get on here, if we were to take a recess at this point.

Mr. HOGAN (Norfolk, Va.). I represent the Norfolk Cotton Exchange. We held a meeting, and a roll call on this matter, and it developed that thirteen members of the exchange were against the southern warehouse deliveries and six in favor of it; that the exchange was unanimous in desiring that all grades should be tenderable on contracts *on* [-all] merchantable grade[s]. Those were all the resolutions we passed at the meeting, and I was appointed to represent the thirteen majority. They did not get anyone to represent the six minority, so I am in a peculiar position.

The CHAIRMAN. I can see from your expression there that I have given entirely too much emphasis to the pro and con part of this thing. What we want is enlightenment, and I think you are entirely within your rights to give us both sides.

Mr. HOGAN. I have not but one side.

The CHAIRMAN. You can talk to us in your representative capacity, if you are in line with what the majority thinks.

Mr. HOGAN. Yes.

The CHAIRMAN. And yet you can give the idea of the minority to us and that will help.

Mr. BUTLER. Mr. Rankin and myself, Mr. Butler, will be the official speakers for the New Orleans Cotton Exchange. We have Mr. Glenny and Mr. Finke with us, and we would like from time to time that they should be permitted to interject a few words, here and there, because we know that they have some very splendid ideas on the subject that might escape us, and Mr. Glenny was the former president of the exchange and Mr. Finke a director.

The CHAIRMAN. If they will simply take the precaution of repeating their names to the stenographer, whose eyes are on his paper, he can not look up. We will take a recess of 10 minutes and see how the thing works out.

(Thereupon a recess was taken for 10 minutes, after which the conference reassembled, and the following occurred.)

The CHAIRMAN. Now, if any of the gentlemen present have not handed in an identification card to the stenographer, I wish you would remedy the matter, by doing it. Now, I will take up this matter of who is to appear by asking those of the New York Cotton Exchange about the people who are to appear from that body.

Mr. JENKS. Mr. Chairman, for the New York Cotton Exchange, Mr. Clayton will speak for the southern warehouse plan and Mr. Cahill against it. I would like to say that there are several members of the New York Cotton Exchange who are against the plan, who are performing their duties as voters to-day, but will be here to-morrow. I think they should be given an opportunity to express their ideas to-morrow upon the matter.

The CHAIRMAN. I think that can be arranged. The New Orleans Exchange will have just one speaker, is that it? Didn't you tell me that?

Mr. BUTLER. I would like Mr. Rankin and myself to speak against it, both. We are of one accord in New Orleans. We are against it. There is no dissent in our committee.

The CHAIRMAN. Give your name.

Mr. BUTLER. Edward S. Butler, president of the New Orleans Cotton Exchange.

The CHAIRMAN. There are none for and there are two against?

Mr. BUTLER. Yes, sir; there are two against.

The CHAIRMAN. That is hardly selecting a spokesman.

Mr. BUTLER. That is all. We will compromise and have one speaker, providing, as you wish to get a full expression of the views of my exchange, you will allow Mr. Rankin to say a word now and then.

The CHAIRMAN. Of course. I am very much given to speech myself.

Mr. GORDON. My name is G. A. Gordon, and I am vice president of the Savannah Cotton Exchange. I am the only representative. They are opposed to any change, and they wish to be heard.

The CHAIRMAN. All right, Mr. Gordon.

Mr. HARRISS. My name is Baylis E. Harriss, president of the Galveston Cotton Exchange.

The CHAIRMAN. I understand you are against?

Mr. HARRISS. Yes.

Mr. BRITTON. I am W. J. Britton, representing the Memphis Cotton Exchange.

The CHAIRMAN. There will be for and against?

Mr. BRITTON. No, sir; I would like to speak both ways if I could.

The CHAIRMAN. That is entirely legitimate, Mr. Britton.

Mr. HOWARD. I am W. M. Howard, representing the Augusta Cotton Exchange, in association with Mr. H. H. Ellison, who likewise represents the Augusta Cotton Exchnage.

The CHAIRMAN. Mr. Howard, are you going to take any particular position on it or not?

Mr. HOWARD. Yes. The views of that exchange are fairly well-crystallized, and will be presented by Mr. Ellison and myself expressing the same opinion on the subject of deliveries to sourhern warehouses. That is the particular phase of it that our exchange desires.

Mr. HOGAN. I am Thomas J. Hogan, of the Norfolk Cotton Exchange, representing a majority against the southern warehouse.

The CHAIRMAN. All right, Mr. Hogan. Then the other exchanges?

Mr. GOLDMAN. The Dallas exchange is not in at the present time.

The CHAIRMAN. The Dallas exchange was to wait and see just exactly what enlightenment there was in this thing. Are there any other exchanges? By the way, who was it represented Dallas?

Mr. BUTLER. Mr. J. L. Goldman.

Mr. RANKIN. Mr. Marcus represents the Texas Cotton Association.

The CHAIRMAN. The spinners, the manufacturers—who is their representative?

Mr. DURFEE. I represent them.

The CHAIRMAN. Are you the sole representative of that branch of the industry?

Mr. DURFEE. I am.

The CHAIRMAN. Now, the association of producers?

Mr. JORDAN. I am Mr. Jordan, representing the American Cotton Association, and on that particular question we would oppose southern warehouse delivery.

The CHAIRMAN. Well, Mr. Marsh wants to be heard. He is of the National Farm Bureau. There are about fourteen speakers here. I suggest for purposes of safety that we start with a limitation of half an hour on each speaker, if that is agreeable. If you folks want a more extensive time, I think maybe the commission would be willing. What do you think about that?

Mr. BUTLER. That is all right.

Mr. FULBRIGHT. Mr. Chairman, it would seem to me that if you are going to have both sides of the question presented, and there are about four sets of them on one side, the question of the division of time to a side ought to be taken into consideration. For instance, there are some organizations that have one man on each side, and there are several organizations that have one or two speakers that are opposed to the southern warehouse delivery. I am not able, following this discourse, to see how many are going to speak for southern warehouse delivery.

The CHAIRMAN. The record shows very few, and as a matter of fact, as I have got it listed here now—well, Mr. Clayton is going to talk for it and nearly everybody else is going to talk against it. If I gave seven hours to those who are going to talk against it and then tendered to Mr. Clayton seven hours to reply, I think that I would be practically asking him to commit suicide. In these sort of conferences, that exact division of time has many things to support it, but I think in this case the commission will be perfectly willing as the discussion progresses to hear those who are for it, if we have the time, and if we think that we can be informed—and I want to say finally that this whole proposition is one in which we are seeking information. We are preparing a report for the Senate. It is upon a very technical subject, as you gentlemen know, and we want information on these various subjects and any others that you may contribute.

I have to be more or less arbitrary in the matter of recognition, so far as the manner in which the men who are to speak are to appear. The universal custom is to open with the proponent of a proposition, and that Mr. Clayton is the first speaker. Is that all right?

Mr. BUTLER. That is all right.

The CHAIRMAN. All right, Mr. Clayton.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. Now, Mr. Clayton, just so that you may not think that this is wholly up in the air, let me explain to you that when a resolution comes from the United States Senate to this body, we regard it as a mandatory direction, and when the resolution is received, we begin a very careful inquiry, with the idea of answering specifically the question that the Senate has asked, or the other body of Congress, or the President, as the law provides. We have men here who specialize in these things, this particular work, and this answer to this particular inquiry; the work has been under the direction of Dr. Walker, who is the chief economist in this establishment. Now, working under him as an *associate* [assistant] chief economist is Dr. Stevens. Dr. Stevens is here, and as you go along Dr. Stevens will want to ask you some questions. As he asks you questions and you answer them, then we begin to get that *value* [flood] of information for which we are anxious.

Mr. CLAYTON. I think that is a splendid idea.

The CHAIRMAN. Now, I want to say to you that in order to get the thing along a little better, I suggest, as you handle this southern warehouse proposition, you also express yourselves, if you care to, on future contract, and on this question of the establishment of differentials in the settlement of cotton grades.

Mr. CLAYTON. Mr. Chairman——

The CHAIRMAN (interposing). You are recognized for a half hour, if you want it.

ADDRESS OF W. L. CLAYTON

Mr. CLAYTON. Mr. Chairman, I shall not need that, unless Dr. Stevens asks a lot of questions. I am listed as representing the New York Cotton Exchange and the Houston Cotton Exchange, but I would like to have it well understood that any views I express here are my individual views and opinions. It must necessarily be so, because neither the New York Cotton Exchange nor the Houston Cotton Exchange have voted or expressed themselves on this subject of southern delivery.

Mr. Chairman, I think that in studying the future contract, the first consideration should be given to the formulation of a contract which conforms as nearly as possible to the practice and method of delivering in spot cotton. After all, the future contract is merely a cotton contract. It is not a paper contract. It represents real cotton. I am in favor of the southern delivery on the New York contract, because it would permit the liquidation of each month as it came around on the basis of the value of cotton in the South, where it is produced, and where it is carried in storage. When the New York Cotton Exchange was first organized, about 1870, a great deal of the spot cotton business was done in the city of New York. The cotton was carried to the other side in sailing vessels, at that time, and samples were sent to New York and a great many of the biggest exporting houses were located there, and sent their samples to Europe by fast steamer, and offered on the samples. Later, they commenced to trade in cotton to be shipped to New York, because New York, being a great financial center, and the South being poverty stricken and unable to finance their cotton, the cotton as it was sold largely found its way to New York storage. New York is to-day, in my

opinion, the financial and trading center of the world. It is not a logical place to which cotton should be shipped and stored, because it is a little out of the channels of trade.

The CHAIRMAN. It is not a spot market?

Mr. CLAYTON. It is not listed as such by the Department of Agriculture. A great deal of spot business is done in New York, but it is more or less incidental to the future business. The cotton which has gone to New York has gone there primarily in satisfaction of contracts, not for a spot business.

The CHAIRMAN. I see no reason why the satisfaction of that contract should not take place in the South at a few well-selected port markets, where the cotton could be delivered in warehouses, and without great transportation expense, the expense of weighing and sampling and handling in the port of New York, putting it into the warehouse, with heavy handling charges and taking it out again—all of which does not add to the value of the cotton. I see no reason why that cotton could not be tendered in Norfolk or New Orleans or Galveston or Houston, in satisfaction of that contract.

The members of the Dallas exchange handle, I believe, about a million and a half bales of cotton a year. They claim they are the largest spot market in this country. Being a Houston man, I might be inclined to challenge that statement to an extent, but anyway they handle a great deal of cotton, perhaps a million and a half bales a year. I do not believe 20 per cent of that cotton is actually brought to the city of Dallas for delivery or storage. They buy that cotton all over Texas, all over Oklahoma, and over a good part of Arkansas, but it is shipped to the markets of the world, much of it was sent out without their ever having seen the bales. The samples are sent to them by the compressors that compress the cotton, and they finance it, and business is worked smoothly and satisfactorily.

If the Dallas merchant sat down in the city of Dallas and said, "We would not handle a bale of cotton unless it comes to Dallas," they would destroy themselves as a market. I give that as an example of the way a large spot market operates.

I think what we want in this future contract, as I said in the beginning, is a contract modeled as nearly as possible along the lines on which the spot business is done. Why should a merchant in Houston or in Dallas or in Galveston or at Norfolk or Savannah have to want in order] to hedge his cotton, sell his contract in New York, and in order to satisfy that contract, ship the cotton to New York to satisfy it? The cotton is just as good in these markets, a great deal of expense is saved by delivering it there, and I see no reason why it should be shipped to New York to satisfy the contract.

The CHAIRMAN. Mr. Clayton would you change the present law of 1914 as to tenderable grades?

Mr. CLAYTON. No, sir. I am opposed to changing that law in any respect. It is not necessary to change it to provide for southern delivery on contracts.

The CHAIRMAN. Just for my own information—of course I do not know as much about this as you do, and I am asking for my own information. Why don't some of you folks over there use section 10?

Mr. CLAYTON. I understand that section 10 is an even-running, middling contract.

Mr. BUTLER. That is a specific grade contract.

The CHAIRMAN. Have you ever known anybody to use the section 10 contract?

Mr. CLAYTON. I believe 100 bales probably was bought out in the beginning.

The CHAIRMAN. What is the matter with it?

Mr. CLAYTON. The matter is this, that if anybody wants to buy 100 bales of even-running middling cotton, and can buy it in the South from the merchant who has it to sell, he can buy it a good deal cheaper than he can buy it in the New York Cotton Exchange, and in that way he avoids another intermediary who must not only make a profit, but provides thereby an additional expense. If a man in Boston wants 100 bales of middling, he would naturally buy it, not on the New York Cotton Exchange. He would buy it at Dallas or Atlanta, because the cotton can be picked up at that point where the merchant is, or in his contiguous territory, and ship direct to Boston much cheaper than it could be picked up and sent to New York and certificated and stand all this expense of putting it in the warehouse, which expenses are very high with the high labor cost, the one month's storage and insurance and all of those things are merely additional expenses on the commodity; so that while you have got there a specific grade contract, nobody ever saved anything, because for economic reasons he can buy it cheaper somewhere else. There is no necessity for it.

The CHAIRMAN. Under the ten tenderable grades which we have in the present law, what is your opinion about them giving too much of an option to the seller?

Mr. CLAYTON. Mr. Chairman, I think the future contracts should carry an option of deliverable qualities that will fairly represent the bulk of the cotton crop, and I believe the present ten grades will represent in an average season 75 to 80 per cent of the *profits* [crop]. First of all, fundamentally, the future contract is a merchant's contract. If we can only get that definitely fixed in our minds, we will clear up a good bit of what I think is a misconception of the nature of it. It is a merchant's contract. It can not be directly a producer's contract or directly a spinner's contract. Both operate in the contract through the merchant, and the middleman must come in and perform his normal functions there. If you greatly restricted the grade of the future contract, it is impossible to say in August what kind of cotton we are going to raise.

A great many merchants were sadly disappointed in the quality of this year's crop. If you had an even-running middling contract, or an average middling contract *or a past middling under* [?], it serves to restrict the range of deliveries; you could not possibly make a contract which would fit each year as it came along. You would get into some years when you had tinges and low grades, and they who had sold that contract would find themselves in the position of possibly having sold more cotton than was produced in those grades.

The CHAIRMAN. You favor, as I take it, the present law for ten tenderable grades?

Mr. CLAYTON. I do.

The CHAIRMAN. Would you go back to the old 20 deal?

Mr. CLAYTON. No, sir; I would not.

The CHAIRMAN. Why not?

Mr. CLAYTON. For this reason. If you buy in the low grades—I do not call your [low] middling cotton a low grade; it is a perfectly merchantable grade, and it is salable in almost any part of the world; but if you inject in there tinges and stains and strict ordinary and *common* [good] ordinary, you put in a kind of cotton that is more or less a specialty. It is not even every merchant who can merchandise that cotton. You narrow the field of possibilities of distribution of such a cotton. When you do that, you do the same thing that has happened in Liverpool time and again.

It happened this past summer. You have got a specialty, a quality that the average merchant can not handle and that cotton will make the value for basis middling [that is] the certificating of said cotton in the deliverable grade[s]. While I can get this ordinary or *common* [good] ordinary, I can not merchandise such cotton the same way I can low middling *or difference* [?], and I can not undertake to get a quantity of cotton that I have no market for, and at times you hear argument of why the strict ordinary and *common* [good] ordinary are perfectly merchantable grades of cotton, and there are one or two mills that make the goods that this cotton enters into, and that can manufacture that sort of stuff, but you will find that there are only 5 per cent of the mills that do that, and as to the other 95 per cent, it is a thing apart; it is just like anything else. They can not use it.

The CHAIRMAN. Do you believe [that] with this present plan, under the law of taking the average of five spot markets, depending upon the cash value of a given grade in the establishment of differences of future contracts, is working satisfactorily?

Mr. CLAYTON. Mr. Chairman, I think it is working as satisfactorily as any method that could be devised for that purpose should work. Excuse me, I think it is ten markets at the present time. The law provides for five or more, and I believe there are ten now.

The CHAIRMAN. That is right.

Mr. CLAYTON. It seems to me that those ten markets, taken as they are, scattered through the Cotton Belt, will come nearer representing the average values of all the grades above and below middling than any other method that you could devise. Formerly they had the method in New York, you know, of having a committee there fix the grades themselves twice every year, which was a very unsatisfactory method, and I think that the present method is the best that we could get. If any one committee fixes the grade differences, there is always likely to be a suspicion that there might be some selfish interest operating there.

The CHAIRMAN. Has not one of the exchanges just such a committee—a disinterested committee?

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. Which one is that?

Mr. CLAYTON. New Orleans, and I am frank to say—I am a member of both exchanges—and I think they are both fine, and we need them both in the cotton business. But I believe that the New York method is superior to the New Orleans method. I think it serves the cotton trade in a more economical way than the New Orleans method does.

Mr. Chairman, I believe, unless there are some questions you would like to ask, that is all I have to say.

The CHAIRMAN. Doctor Stevens will want to ask you some questions.

Doctor STEVENS. Are you through, Mr. Clayton?

Mr. CLAYTON. Unless some one else cares to ask me some questions, I am.

Doctor STEVENS. I would like to ask you this question. How do you sell your spot cotton customarily?

Mr. CLAYTON. Most of our business is export business. We sell by offering to Europe, either through our own branches or our own agencies.

Doctor STEVENS. You sell even running on your ordinary business?

Mr. CLAYTON. Nearly altogether.

Doctor STEVENS. If the future contract, as I think I understood you to say, should conform to the method of dealing in spot cotton, why should not the future contract——

Mr. CLAYTON (interposing). Because we buy basis middling. We accumulate our cotton basis middling.

Doctor STEVENS. But your grades which are delivered are from your accumulated stocks, are they not?

Mr. CLAYTON. That is correct.

Doctor STEVENS. If your selling basis is *ordinary* [ordinarily] even running cotton, in the event you choose to make *differences* [deliveries], why should [not] your deliveries be in even running cotton?

Mr. CLAYTON. For the reason that we must accumulate in buying. I do not mean to say that every merchant buys in that way, but the bulk of the merchants in the South buy basis middling, and take the grades above and below. He does not know at the time he makes his purchase what he is going to get. He has to wait until it is in the compress, and he gets his samples. The merchant buying three or four or five thousand bales of cotton a day, he could *not* [?] ordinarily have had a hundred thousand bales of cotton, a part of which he does not know anything about. He *forgets*, [tries] but he does not know. A man buying cotton and selling it for even running *and* [or] selling average middling might find himself in a very embarrassing predicament.

Doctor STEVENS. Would not that predicament be largely eliminated if you should proceed to increase the present grades to a considerable extent and *so* [?] make the cotton [contract] even running, so that you could deliver not merely ten *or* [but] twelve or fifteen, the *annual production* [grades deliverable] being in the contract stated to be even running?

Mr. CLAYTON. Let me see if I understand you correctly. You mean to say that if we should sell a thousand bales of the same grade?

Doctor STEVENS. Not necessarily, but that each 100-bale contract should be even running of some of the grades in question.

Mr. CLAYTON. There is a very practical bar to anything of the kind, in this way. Take to-day, New Orleans, if I want to deliver a thousand bales of cotton out of Texas, and it had to be even running grades, that is, a thousand bales of one grade, if I classed that cotton and he had 500 bales of middling and 500 strict low, that will fill the contract?

Doctor STEVENS. Oh, yes. I mean to say, theoretically, under the question I have asked, can he deliver 10 different grades?

Mr. CLAYTON. Oh, yes. That would fill the contract you have in mind.

Doctor STEVENS. Yes.

Mr. CLAYTON. Our classer might class it 500 middling and 500 strict low, and ship it to New Orleans, where the Government classers are, and it might be 10 different grades. I do not mean to imply that the Government classers are inaccurate, or that they do not class correctly. I simply mean that in law [?] the cotton submitted to two different classe[r]s—there may be a great variation in it. So that you might believe that you had shipped cotton which would fill the contract, and then when it gets there you have not.

Doctor STEVENS. Does not that same thing occur when you sell a contract for even-run cotton, spot delivery?

Mr. CLAYTON. It does to a certain extent, but there are rules for arbitration, so that if you sell 500 bales of middling to Liverpool, for instance, and ship it there, and every bale is strict low middling, it is not rejected. You put in a claim and if the cotton falls below your contract, your contract can not be canceled. The cotton is not rejected. An arbitration committee passes on the grade and says "We will pay you on this grade."

Doctor STEVENS. How much of a fraction is that? When you have such rejections is it really rejections which involve 25 or 50 bales out of the lot of spot cotton, or is it an operation which really is only about 5 or 10, under 2 per cent of the entire shipment?

Mr. CLAYTON. Well, I think as a general thing, I should say, if I had to guess, 75 per cent of the cotton shipped to Europe never has any claim on it at all, possibly 85 per cent. It goes correctly.

Doctor STEVENS. Then could not a question of even running on the delivery be settled largely by a matter of tolerance, say 5 or 10 per cent of the particular contract, and would not that as a matter of fact obviate any particular difficulty with delivering the contract even running on the ground that it is a hard thing to do, more particularly, as I say, if you increase the number of deliverable grades from 10 to 15?

Mr. CLAYTON. Mr. Glenny mentions that they have that contract now.

Mr. GLENNY. The contract is here now, section 10.

Mr. CLAYTON. It can be traded in.

Doctor STEVENS. The point is, of course, it is a specific grade contract, and you can make the deliveries on the present future contract, and it is not to be anticipated that the future contract will be changed.

The CHAIRMAN. Doctor Stevens, if I can interrupt, stenographers are human beings, and this young gentleman who is very kindly taking this meeting for us will not last long if you talk at that speed.

Doctor STEVENS. Pardon me.

The CHAIRMAN. If you will just slow up, we will save him.

Doctor STEVENS. My point is that the character of the contract being what it is, accompanied with a specific grade contract, that you could not expect, could you, logically, to have any particular trading in it, when you could use the present contract, which is apparently a contract which is being universally used?

Mr. CLAYTON. Dr. Stevens, I fail to understand your reason for a demand for a specific grade contract. If we go back to my original statement, that the future contract is a merchant's contract, it performs certain functions in the distribution of cotton, it can never be a spinner's contract unless you destroy its ability to perform those functions. Suppose you were even going to the extreme of saying, "We will make this a basis strict middling, nothing under middling, nothing above good middling," put it that way, and how would that read in the contract? I do not believe it would have the influence of 2 per cent of the spinners—not 1 per cent.

A spinner must either trade with a merchant or cooperative association, which is the same thing. They are merchants, too. He must employ the services of a merchant if he wants to get the exact quality of cotton he buys for his material. He not only wants middling, but he says it must be free from color, no color. He wants it an even length, and it has got to come from Arkansas or it has got to come from Tennessee. And it must be strong staple. They inject in it all of these different conditions, which are perfectly proper and are necessary to meet their own particular needs. With merchants that is our business to study the needs of these fellows and give them those things that they require and which they want to put in a future contract, which is an impersonal sort of thing, and give a spinner what he needs, that which he has got to go to his merchant for, and if you make a contract of that kind you inject in that special contract *anything* [nothing] that is of value to the spinner. Speaking broadly, it might be to this man or that man, you not only don't get anything that is of value to him, but you destroy the function of the future contract, which is that of a merchant's contract.

The CHAIRMAN. That is all plain enough to you, and it is plain enough to Dr. Stevens, but it is pretty difficult for me and I believe the other commissioners. What I want to get into my own mind before you take your seat, and your time is getting short, is this: Nothing on this earth is more delicate than the matter of striking a bargain. It is the most delicate, subtle, psycological thing in the world. It is accomplished sometimes by the meeting of the minds of the two parties, or the meeting of the eye of them. It is born in a second, when a bargain is struck. You have had experience as a cotton merchant and you have cotton to sell.

Under section 10 you have got the right to bargain to deliver cotton in the future, but you can deliver under section 10 cotton of a certain kind. That section of the law is not used. Congress passed it and tendered it to the trade, and the trade turned its back on that section of the law which provided that two men should meet and agree that at a future date one of them should deliver and the other would accept cotton of a grade. You do not use that, but you are using another section of the law which provides that at a future date the seller may tender one of ten grades, that he make up the difference between the value of the cotton he tenders and the value of the cotton he proposed to deliver by a cash payment. Is that right? so far? Am I correct up to this point?

Mr. CLAYTON. Do you mean all grades other than middling, above and below?

The CHAIRMAN. Yes.

Mr. CLAYTON. Yes, sir; that is correct.

The CHAIRMAN. All right. Then the latter device, where you bring buyer and seller together to strike a bargain, to make a delivery

and to receive goods at a future date—this is my question, and I would like to get your real thought on it, and I know you have studied it a lot—does not that give the seller the edge in that transaction? Aren't you giving the seller there a right that you do not give to the buyer? Remember, I am asking this question on the knowledge that I have from service on this commission, that there is nothing more delicate in the world than the meeting of a buyer and seller. If your transaction is to be just, in my opinion you have to keep on a level. You must keep them in balance. Does not that second contract, which allows the seller the option of making delivery of certain grades of cotton and making the difference up with cash by a cash payment of some kind, by the payment of the difference—don't you get yourself out of balance?

Mr. CLAYTON. I do not think so, Mr. Chairman.

The CHAIRMAN. Why not?

Mr. CLAYTON. For this reason. I take it that any contract made in legitimate trade, the terms of which are well known to both buyer and seller when they enter into it, both know the terms of the contract thoroughly, can not be unfair to either party. On your section 10 contract, Mr. Chairman, my firm and any firm of cotton merchants will sell any quantity of section 10 contracts if they find anybody to pay the price. There is the trouble. There is nobody that will come in there and buy a section 10 contract and pay the price that will warrant us to contract ourselves to furnish specific cotton. We deal with the people who want specific cotton directly. There is no necessity for interposing any other facilitiy through which the cotton has to be moved and classed and handled by that facility and warehoused and moved to its point of origin and then picked up again and moved to destination. We take it direct from where it originates to its destination. So that there is no necessity for section 10 contracts, and they never will be traded in.

The CHAIRMAN. In other words, in your transactions in the sale of cotton to spinners or to anyone else, you actually deliver the cotton. You buy the cotton and you sell the cotton?

Mr. CLAYTON. I beg your pardon.

The CHAIRMAN. In your actual transactions, you physically handle the cotton?

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. All right. Then you say, "I have no use for this section 10 proposition, because when we deliver the cotton we actually take it and deliver it, and we own the cotton and see it." That is true, isn't it?

Mr. CLAYTON. Yes, sir; that is the way in which we do the spot cotton business.

The CHAIRMAN. All right. That is a cash transaction, where you physically handle the cotton, and so you say you have no use for section 10.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. Why did you use this other provision of the law, which I think is section 5, which you contract to deliver goods, and then the law allows you an option there of what kind of goods you can deliver? Do you think that that law as it stands, making that provision, keeps your buyer and seller of future contracts for delivery and the receipt of cotton in balance?

Mr. CLAYTON. Absolutely, Mr. Chairman.

The CHAIRMAN. How does it?

Mr. CLAYTON. It does for the reason that both buyer and seller know the contract, and if there be to the buyer any disadvantage in having received any one of ten different grades and not know it, it is all equalized in the price.

Whatever option there may be exists on the part of the seller. There is not only an option in the delivery of 10 different grades, but there is an option about whether he will deliver the first or the last day of the month. Those are two factors which you might say are against the buyer, but it is equalized in the price.

The CHAIRMAN. All right. If you have got there a contract under the present law, perfectly legal, which gives the seller the right to select the number of grades he can deliver, which is in the law in section 5, 30 days' time in which to do it, the selection of any day, that is another advantage. When you give him ten different markets in which to make delivery, haven't you further increased that advantage?

Mr. CLAYTON. There is no question but what southern warehouse delivery gives another option to the seller, and it must be studied on that basis. There is no question about that. At the same time, I fail to see what difference it makes, whether the cotton is delivered at four or five well-known spot markets in the South, where there is plenty of spot business being transacted all the time, whether it is delivered there or delivered in the city of New York. I do not see why it should not be delivered in the South.

The CHAIRMAN. Of course, you say you wonder about that. My impression is that the more points of delivery you have within the actual cotton fields, the more apt you are to get speed and heavy deliveries.

Mr. CLAYTON. That is where we have these deliveries on the spot cotton.

The CHAIRMAN. Yes.

Mr. CLAYTON. Let us study the spot business a little while. The farmer sells his cotton to the small dealer in the little town, who sells to another dealer in a rather larger town, and who in turn sells to a merchant at Dallas or Houston or wherever it may be. The cotton is all handled there. The farmer in the *heat* [height] of the season in October and November—I expect we have at times probably a hundred thousand bales ginned a day. Why should we have heavy deliveries on the future contract? If it is to the advantage of the man that has the cotton and to the man who has bought it, why should not he perform that function, and deliver a hundred thousand bales, if you will? The cotton market is a world-wide market. You have got buyers all over the world. In Liverpool, in Havre, in Bremen, in Italy, you have them everywhere. They watch this market. This market, I do not care if we had two hundred thousand bales delivered on southern warehouse delivery, but future markets will never go below the value of that cotton at the point of delivery. There are people everywhere that watch it and buy it when it comes to that point. There is an absolutely automatic stop to it.

The CHAIRMAN. You are talking about something that I do not know.

It is my recollection that I saw lately your future level has been traveling below cash level.

Mr. CLAYTON. At the present time it is considerably above.

The CHAIRMAN. Has it been below? Has not there been a period when it was below?

Mr. CLAYTON. Yes, and there always will be. It is impossible to devise any future contract which is workable, which will travel right along absolutely with the value of middling cotton. If you make a middling contract and have it deliverable to these different points in the South, possibly it might travel along with the value of middling contracts, but you would destroy a function that the contract is supposed to pass along.

The CHAIRMAN. That is the hedging process?

Mr. CLAYTON. That is the hedging process.

The CHAIRMAN. If the future price is traveling below the current market price, and keeps traveling below, it is not a very good hedging proposition, is it?

Mr. CLAYTON. That depends, whether it is or not. The near month may be 50 points below the value of spot cotton, below the value of middling. That is possible. And some distant month it may be above the value of spot cotton. The opinion is often expressed that having futures under spot cotton—I am encroaching upon my time, Mr. Chairman.

The CHAIRMAN. It is my fault too, and I'll have to permit you to go ahead and conclude your remarks.

Mr. CLAYTON. Having futures under spot cotton is bad for the producer. It is a bear market. I disagree with that view. I think the statement of the proposition disproves it. If futures are selling 50 points under spot, it shows a strong spot market, and in time the future situation will make it up to spots. The statement of the proposition disproves it.

The CHAIRMAN. All right, Mr. Clayton, we thank you. We have made a good beginning here in the way of observing the time and so forth. I have got Mr. Butler next. Mr. Butler, you have a half hour, and then we will take a recess and get something to eat, and if it is agreeable to the commission and the group of gentlemen present, we will come back at half past one and go at it again.

Mr. BUTLER. That is satisfactory.

ADDRESS OF MR. EDWARD S. BUTLER, OF NEW ORLEANS, PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE

Mr. BUTLER. Mr. Chairman, I propose in discussing this matter to touch upon one or two subjects in the discussion. The first subject will be the contract. It is the sense of our exchange, which this committee present represents—the New Orleans Cotton Exchange—that the present contract is sufficiently comprehensive to include the bulk of the cotton grown, and that it has maintained at some period during the *last* [life] of the option a relation between spot and futures more than any previous contract tried on the exchange.

In regard to the question of southern deliveries, this is not a new suggestion. As a member of the New Orleans and New York Cotton Exchanges, I have heard it advocated the pasy twelve or fifteen years. It has been inquired into by committees and rejected as impracticable.

Mr. Clayton has touched upon the expense to be saved in certificating cotton, because the cotton is brought to New York. If tendered at southern markets, the same procedure and same expense would occur. It must be certificated through the agency of the United States Government and delivered. The question of freight, of course, from the southern point to New York would be saved, but there are certain economies to be derived in receiving your cotton in New York; for instance, foreign freights are materially lower and readily obtainable in New York, where they would not be at southern points. And may I ask here if the southern points intended are ports or all interior points? That has not been brought out. I would like to know what the points are.

The CHAIRMAN. Mr. Butler, there has been no definite name of places.

Mr. BUTLER. The reason I asked this question is because that would have a material bearing upon the matter.

The CHAIRMAN. Of course it would. I can see readily there would be quite a different argument made for one point of delivery in the South and ten points of delivery.

Mr. BUTLER. The reason I asked this question is because I would then want to know what qualifications would be necessary for a point to be a designated point, because I contend, that [if] it *would be* [were] simply a question of volume or receipts, or warehouse facilities, probably twenty-five points in the South could qualify, and would have every right to qualify as other points, if they had equal advantages. I can not see any benefit to be derived from having deliveries at southern points, and on the contrary I can see possibly a great deal of disaster in store for the producer or farmer. It would mean that large interests in the cotton business should control or own compresses at the points, or would own or control compresses at the points and would hold a club of a large amount of cotton ready to tender on a moment's notice on contracts, and the mere fact that it was simply possible to give you two hundred thousand or three hundred thousand bales of cotton would be sufficient influence to scare everybody out of the contracts, whether it was actually tendered finally or not.

Besides, every small buyer of contracts would be entirely eliminated, and many of the large buyers of contracts, because it would be necessary to maintain an efficient organization in the various markets in the South to take up this cotton. I for one believe that it would mean the end of the future business, and naturally that would be to the disadvantage of the cotton producer and manufacturer and merchant and banker, because I believe that the future business does perform an economic *necessity* [function] in the cotton business and [furnishes] an insurance feature, which although not perfect, is the very best that has been devised by the best brains possibly in the cotton business for the last 40 years, and it has not been lax in its attention by Congress either. They have looked into the matter and passed laws right on that point.

The CHAIRMAN. We found in the investigation of grain that there were periods covering considerable length of time, in which the hedging device used as the form of insurance lost money for the fellow who was using it and did not save it. Does that occasionally happen in cotton?

Mr. Butler. Yes, it does occasionally happen, just like in the insurance business, if the insurance company fails you do not collect.

The Chairman. So it is not a very perfect form of insurance, is it?

Mr. Butler. No, sir. I do not contend that the future contract is a perfect contract or that it can be perfected; but I do believe it is as good as any insurance policy that you can get, just as good as one you can get on your house, which covers a risk. It is not perfect. There are too many various changing conditions and elements that enter into the cotton business every year, the matter of growth, financing, etc., from year to year, to make a contract which would fit conditions under all circumstances. It can not be done. A contract that would function this year would not function next year.

I think, in order to go on with the discussion, it would be better possibly to have me asked some questions.

The Chairman. All right. Dr. Stevens, would you like to ask Mr. Butler any questions?

Doctor Stevens. Yes.

The Chairman. What do you think about this establishment of differences as now practiced in the United States?

Mr. Butler. In *discussion* [discussing] the southern warehouse deliveries, that is of all importance, and I have not heard it discussed by the proponent as to just what differences would prevail if southern deliveries were made. For instance, the New Orleans market is quoted by a number of paid classers, assisted by the United States Government, a member of the Bureau of Markets and the Bureau of Economics. The *farmer* [market] is quoted on actual sale of spot cotton or bona fide bids to buy cotton. We believe this as near correct as it can possibly be quoted.

The New York market is quoted on a different basis entirely. It is quoted on the average of the ten different designated markets specifically picked out for that purpose, the reason being that conditions are different, because New York has been declared by the bureau as not a spot market. In southern deliveries I can see no reason why deliveries can not be made in New York. A very prominent member of the New York Cotton Exchange told me yesterday that 19 million bales of cotton went to New York in the last 16 years. Nineteen million bales of cotton have gone through the port of New York, not for delivery on contract particularly, but for shipment abroad or to spinners.

The Chairman. That means ten per cent of the cotton production of the United States goes through New York?

Mr. Butler. Yes; about that. It is an average of practically ten per cent, possibly a little more.

The Chairman. It is a pretty good spot market, isn't it?

Mr. Butler. The cotton did not all stay in New York. I have the figures of what amount was delivered on contracts that went there for that specific purpose and did stay there for some length of time, proving that whenever New York will pay the price for cotton they can get it.

Doctor Stevens. I would like to ask Mr. Butler how much of that cotton is through cotton and how much of it is cotton that is actually bought and sold in New York?

Mr. Butler. I do not exactly understand the question. Do you mean on the spot, New York, or bought by New York merchants?

Doctor Stevens. A contract made in New York and not made outside.

Mr. Butler. Then you refer to the amount of cotton bought on contract?

Doctor Stevens. How much of that cotton went through New New York, not bought and sold in the New York market?

Mr. Butler. That I can not answer; I do not know; but I can tell you how much was delivered on contracts, because I have got the figures right here, during that period. One year there was as much as a million bales. These are the figures, for instance—supposing we go back, cotton delivered on contracts on the New York Cotton Exchange during the following years. I will go back as far as 1905; that is reasonable. In 1905 there were 478,500 bales. In the year 1906 there were 459,600 bales. In 1907 there were 400,200 bales. In 1908 there were 506,800 bales. In 1909–1910 there were 1,500,300 bales. And during that period, in the four months, over 700,000 bales went to New York in that year in four months, proving that cotton can go to New York very readily and very easily.

The Chairman. What happened to the Sully year?

Mr. Butler. The Sully year was 1903–1904, and there were 2,875,000 bales which went to New York.

The Chairman. Was the name "Sully"?

Mr. Butler. Yes, sir.

The Chairman. He bought a great deal?

Mr. Butler. Yes; he bought a great deal, and finally went out because he could not pay for it on March 18th.

In 1912 there were 499,300 bales. In 1913 there were 414,500 bales. In 1914 there were 169,600 bales. In 1915 there were 154,800 bales. In 1916 there were 137,400 bales. In 1917 there were 105,200 bales. In 1918 there were 127,500 bales. In 1919 there were 85,400 bales. In 1920 there were 267,700 bales. In 1921 there were 536,000 bales. And in 1922 there were 279,000 bales.

The Chairman. Now, Mr. Butler, if you subtract those contract deliveries from your total, it does not make New York as much of a spot market as it would appear to be.

Mr. Butler. No, sir; but it does prove that cotton readily goes to New York. There is no particular purpose to bring cotton into New York as long as there are no mills to consume it, or a delivery to be made on a contract, or to deliver it to a mill, or store it and ship it abroad. So that cotton does not naturally seek New York as a port of deposit, and that is possibly the reason that it is not regarded as a spot market, but the thing that I am trying to bring out is that cotton can readily go to New York. There is another reason that is so, and that is that all freight rates, particularly by water from southern ports by sea—and cotton can be shipped from New Orleans to New York on a regular advertised rate on the American Line of 35 cents, from Galveston for 35, from Savannah about 25, and Norfolk 15, and by chartered boats I have shipped it as cheap as 25 cents to New York from New Orleans.

The Chairman. Right in that connection, am I right in understanding that cotton has never enjoyed a carload-lot rate?

Mr. Butler. Yes, sir. A carload rate would not be advantageous to cotton. It would be detrimental.

The Chairman. Why not?

Mr. BUTLER. For the simple reason that the quantity of cotton grown is grown in small quantities by numerous farmers and is not all harvested at one time. Many men grow a great deal less than a carload lot, and even if they did grow more, they would have to hold it to complete the shipment, and as the best price obtainable is often by rushing it to market quickly, or holding it back, as the case may be, he would have to pay. Many farmers do not produce over ten or twelve bales of cotton, and they could not enjoy the rate. Cotton does enjoy a carload rate from California, I am told, and it is a detrimental proposition, and that is the only place the rate is in effect.

The CHAIRMAN. I would like to sit up at night and pray over the proposition that a carload rate is disadvantageous.

Mr. BUTLER. It is disadvantageous to cotton.

The CHAIRMAN. It is?

Mr. BUTLER. Yes, sir; undoubtedly. I made an argument against it before the War Trade Board several years ago, and if I have got it I will look it up and send it to you.

The CHAIRMAN. I would like to have it.

Mr. BUTLER. It would increase the rate on less than carload lots, which would be in the majority. Cotton is handled in small quantities rather than large quantities by the individual farmers; by the merchant of course it is handled in larger quantities. My contention is that New York is fully capable of getting all the cotton, is in close enough proximity to the Cotton Belt to attract all the cotton necessary, is favored by freight rates leading to New York, and there is no necessity of liquidating a New York contract with southern deliveries. I also ask, if that is the case, that southern deliveries should be made as a liquidation, presuming that to be the case on New York contracts, and I presume the same would hold good on the New Orleans Cotton Exchange. Is that so or not? Would the same apply to New Orleans, that southern deliveries should be made against New Orleans contracts?

The CHAIRMAN. I am not competent to answer that. Have you anything to say on that, Dr. Stevens?

Doctor STEVENS. I would say that, so far as the consensus of opinion shows from what we have gathered, it would be supposed to apply, but I do not think it necessarily is so.

Mr. BUTLER. It changes the discussion somewhat, if it does or does not. If it does not, then it means that we have two different contract markets, and take your choice—trade in New Orleans and get your cotton in New Orleans, or trade in New York and get it at 5 or 6 or 7 points, or whatever the number of designated markets would be. The result will be that one market will fall and the other will survive. The trade will choose the one it likes best.

The CHAIRMAN. In relation to that, I wish you would not take your seat until you explain to us the operation of the disinterested committee at New Orleans that fixes upon the cash quotation. Mr. Clayton points out that that is not much good compared to New York scheme. I have always kind of warmed to the New Orleans idea.

Mr. BUTLER. I do not think Mr. Clayton meant it just in the way you have stated it, or just in the way you have grasped it. Mr. Clayton probably meant that one scheme was better for New Orleans and the other better for New York, due to the different conditions existing in the two markets, and I, as a member of both the New York and New Orleans Exchanges, probably subscribe to that opinion myself. I do for this reason, that the conditions are entirely different. In New Orleans for the last five years we have had a maximum stock—up to a year ago—of at least 500,000 bales of cotton at one time, and never less than about 200,000 bales of cotton—up to the past year. So, there was sufficient cotton always there to accurately quote the price of cotton, out of bona fide sales made in the market that day, or bona fide bids and offers. In New York the conditions are different. There is no particular reason for cotton to go to New York unless to satisfy a contract or to be used in an economic way to go to a mill or to export abroad. So that there are not actual daily sales of spot cotton in New York, in order to quote the market, and it would be very difficult to arrive at the value of cotton there, there being very little actual spot cotton traded in in that market.

So if it was contended that an average of the various spot markets throughout the country should be the guide, a sufficient number would give a fair quotation for New York. The New York contract immediately reflects that price quoted. The contract itself adjusts that. It is adjusted through the contract. So that I think that there should possibly be a different method of quoting the two markets. Whether the ten markets are a sufficient number or too many—possibly five might do—the less number you have possibly the more accurately you could quote it; maybe ten is all right, I really am not prepared to say that; but I do say this, that it is about as good a proposition as I can think of, with this exception, that we want a little closer supervision from the Bureau of Markets and Economics to see that these markets keep their differences right. I think the problem is pretty well solved as it is to-day.

The CHAIRMAN. Dr. Stevens, do you want to ask Mr. Butler some questions?

Doctor STEVENS. Did I understand you to say that there was no real reason for cotton to go to New York, except for delivery on a future contract?

Mr. BUTLER. No, sir. I said there was no particular reason for cotton to go to New York except to satisfy a mill contract via New York, or to go there to be stored for shipment to Europe, due to the advantage of ship freights and ship exchange rates, or to satisfy a future contract.

Dcotor STEVENS. Don't most of the mills buy their cotton in the South and have it shipped direct? Is there any appreciable volume of mill sales in New York market to manufacturers of cotton in New York?

Mr. BUTLER. Not all cotton that is in New York seeks New York as an outlet. I should think that all of this cotton in the years referred to was sold to mills or finally left New York and was disposed of, and there had been in the year 1909–1910, as much as 1,500,000 bales.

Doctor STEVENS. Mr. Butler, how much of those figures that you have there on that list represents a cotton which has originally gone to New York and *then* [been] tendered and taken up and again tendered and taken up and again retendered? Is not this statement of tenders as bearing on the spot conditions in New York misleading?

Mr. BUTLER. That cotton is in New York all the time [and] seeks an outlet. It may be tendered and retendered for three years, but it finally goes to some mill. It does not stay there forever. In 1910, during the Brown-Hayne campaign, as it was called in that year, a number of southern men took cotton in New York, they received 800,000 bales on contract in New York that year in May and July, and none of it was retendered. They shipped the bulk of it out. A great deal of it went to Liverpool, considerable to Bremen, and some of it to Havre.

Doctor STEVENS. That was in the case of the Brown-Hayne corner. Was that a usual——

Mr. BUTLER (interposing). I do not consider it a corner. I say these gentlemen found it was cheap to buy the cotton and sell it at a higher price.

Doctor STEVENS. Leaving aside the question of *contracts*, [corners] would you say that that is the normal thing to be expected in New York?

Mr. BUTLER. What is the normal?

Doctor STEVENS. The normal situation that a great deal of cotton would come to New York for delivery on contract to mills?

Mr. BUTLER. Providing the price is right. I have received considerable cotton in the 23 years I have been in business in New York. I have never asked anybody to give me a contract back. I have never found any trouble in liquidating a contract if it was 60 or 70 [points], from the southern market, which it really should be possible to do at nearly all times.

Doctor STEVENS. Then you never have been caught in any squeezes in the near positions in New York for delivery?

Mr. BUTLER. Well, possibly a great many of the people that get caught, if that is the way we put it, is due to the fact that they initiate a transaction which is wrong in its inception. They are caught when they start. It is not at the finish. If they start right they will never get caught. They sell it too cheap, not according to the cost of spot cotton in the South.

Doctor STEVENS. You speak of the proposition that if the southern warehouse delivery system was adopted, deliveries being made at southern points, large amounts of cotton being accumulated, what some people I suppose would call bear manipulation and depression in the price of the future contracts would occur.

Mr. BUTLER. I think so.

Doctor STEVENS. Is it not true that in many cases [—] New Orleans contracts, being deliverable only at New Orleans, [—] that there are several hundred thousand bales of cotton in New Orleans which could be made deliverable in 48 hours?

Mr. BUTLER. I do not think so.

Doctor STEVENS. Or within the deliverable month?

Mr. BUTLER. Within the deliverable month. But I would say this about it, that the cotton is only indirectly deliverable on contracts. The cotton goes to factors. These factors represent farmers who have consigned it to them. The man who will ultimately have to deliver that cotton would have to pay a price to buy that cotton from the factor before he could deliver it. So we think cotton is practically eliminated, unless the full market price is paid for it.

Doctor STEVENS. Then you would say that the bulk of the stock of cotton in New Orleans—that is to say the *public photographh* [published figures] of New Orleans stock, not certificated stock—was [not] owned by merchants?

Mr. BUTLER. Yes, sir. I would say that. The bulk of it is owned by cotton factors.

Doctor STEVENS. Isn't that true of the other markets, also?

Mr. BUTLER. Well, I do not think so. The other markets, the interior markets particularly, very few of them have factors. The buyers located in the interior markets buy and concentrate cotton rather than factors. There are some, for instance in staple markets, like Vicksburg, we have factors there.

Doctor STEVENS. If a merchant desires to depress the price of cotton, would not it be possible to accumulate a lot with the idea of depressing the price with the offer of delivery, in exactly the same way you do with the southern warehouse deliveries?

Mr. BUTLER. The difference would be this, that in southern warehouse deliveries the man would have to have the organization to take it up at numerous points. You would have to have a national organization. You would have to be equipped to take up cotton in the various markets if they would tender it to you, under various shipping conditions. You might not be able to get the foreign rate, if you are going to move it out; whereas, at New Orleans, you would get your cotton centered at one place, with cheaper insurance, and warehouse facilities, where banking facilities are probably superior, and where foreign rates are readily obtainable for all ports.

Doctor STEVENS. Is it true that most of these concerns that take contracts on cotton at New York have to have a New York office to do it?

Mr. BUTLER. Not necessarily. I think the bulk of them do. For instance, we send a man up there to take ours, our own man.

Doctor STEVENS. If a man is sent up to New York City, that is a long distance, wouldn't it be fully as cheap to send a man *from* [to] the southern spot market or southern warehouse delivery points?

Mr. BUTLER. Of course, the cost would not be anything, but we may have to send ten or fifteen men. There is no particular point we know we are going to get it. We will get it at the point we want it *worst* [least]. For instance, a Texas shipper would get it at Savannah, and a Georgia shipper would get it in Texas.

Doctor STEVENS. May I ask again on that point, could not that be largely obviated by a system of contracts whereby the buyers would indicate their preference as to points of delivery, and in the order of their indication the contracts or the deliveries offered on the contracts [would be] cleared with reference to those buyers, so as to give certain individuals a *choice* [chance] to indicate their preferences, [—] the *principal* [buyer] to suggest a point where they are most wanted?

Mr. BUTLER. I think that would be such a complicated system, I really do not know whether it would work or not.

Doctor STEVENS. Isn't it done now by private arrangement in New York, as a matter of fact, when a seller is going to deliver to the buyer? Is not there some such arrangement?

Mr. BUTLER. Not that I know of. It is a matter, of course, of agreement. Anything can be done by agreement, but there is one qualification, you have to have a law to that effect.

Doctor STEVENS. But can't you do it by the payment merely of a small premium and get the kind of cotton you want on delivery?

Mr. BUTLER. You can do a lot of things by the payment of a small premium.

The CHAIRMAN. Your time has expired, gentlemen, if it is agreeable, we will take a recess until half past one, and I want to say that if it is agreeable we will hear Mr. Rankin at that time.

(Whereupon, at 12.05 o'clock p. m., a recess was taken until 1.30 o'clock p. m.)

AFTERNOON SESSION

(Tuesday, November 6th, 1923.)

The commission met pursuant to the taking of recess, at 1.30 o'clock p. m.

The CHAIRMAN (Mr. Murdock). All right, Mr. Rankin, we will hear you.

STATEMENT OF MR. H. M. RANKIN, REPRESENTING NEW ORLEANS COTTON EXCHANGE, NEW ORLEANS, LA.

Mr. RANKIN. I do not know that I can add very much to what Mr. Clayton said upon these questions under discussion; but there are one or two points I want to try to bring before you and impress upon you.

I think this is the most vital question that has come before the cotton trade since I have been in the business, and I think it is a question that we should consider very, very carefully before there is any action taken.

We have been operating under the present contract and the present regulations for some time, about nine years, I believe.

Mr. BUTLER. The present contract was amended in 1914.

Mr. RANKIN. So far as I can see, I do not think anybody has been hurt. I believe the cotton trade has made a step forward, and I believe that the farmer, with the exception of one year when there was a near panic, has received very good prices for his cotton. That certainly has been the condition for the last two years.

I think that we recognize that the cotton exchanges are a necessary function, that they are a legitimate institution and necessary to the operation of the cotton business. That was demonstrated in 1914 when cotton went from 30 cents down to 6 cents a pound, and the day the cotton exchanges were opened we saw an investment buying, or anyhow cotton began to advance, until we saw it gradually work up and go as high as 42 cents.

I think the most dangerous thing connected with the southern delivery is this. You know that it has been stated here that our contract is a merchant's contract. That is very true, and I do not try to refute that or contradict it. That is so if we say that it is directly a merchant's contract; but indirectly it is a producer's contract, and we must bear in mind that if the world be clothed and fed, the first man we must bear in mind is the producer, and any legislation that is proposed the first question to come up is whether it is going to affect the producer, and, if so, how it will affect him, and whether or not it will be to his advantage or disadvantage.

I contend that if this southern delivery is put into effect it is going to affect the producer in this way. A great many men are engaged in the cotton business. I think the middleman is essential and at all times takes cotton off the farmers' hands, or the farmer himself, if he wishes to do so, can find an outlet *for* [in] a future contract, for five or ten or fifteen or twenty-five [bales]—there is no reason to limit the number—if the various markets qualify, if these points are designated as southern delivery, I contend it will give the big interests a chance to accumulate stocks of cotton at these points and overnight to depress it two or three hundred points and give them an opportunity to buy it back and still have the cotton. He can do that within a very short time.

I want to answer one question that was brought up. Why can not that be done in New Orleans, a southern point? Well, for this reason. It was stated the New Orleans market has, we will say, often a stock of three hundred thousand or four hundred thousand bales; but it is not all available for delivery. And then, furthermore, it is not as easy, it is not as practicable, it is not as profitable, to concentrate cotton at New Orleans as it is at four or five other points where people own their own warehouses.

Another feature is men can receive cotton in New York or New Orleans without going to the expense of sending men to those various points. For instance, we have no office in New York, but on occasion we receive cotton in New York because our future broker takes care of it. I think nearly every future broker in New York and New Orleans is ready to receive spot delivery, either to receive or deliver cotton.

It seems to me that relieves that side of it.

Now, the point I make is this; if these points are designated for southern delivery, it gives the large interests a chance to slam at one time a half million or a million bales on the contract, which is bound to have a big effect. Another thing, this contract made for the cotton trade, it is true, it is a merchant's contract, but it affects all of us; it affects the spinner, it affects the producer, and also the merchant. We do not want a class contract; that is, we do not want a contract that is favorable to one merchant as against another.

There are hundreds of cotton men, all merchants, scattered over the Cotton Belt, and it would not be feasible for those small merchants to establish offices scattered all over or at the various points of delivery.

As has been impressed, gentlemen, I think that is absolutely impracticable. It is all right for the big firms to do that but it is not all right for the little firms.

Now, what might happen? I, as a merchant, would certainly not want a contract, if I bought it as a hedge against a forward sale; but I certainly would not want to stand there and take the cotton if I thought it was going to be scattered all the way from Norfolk to New Orleans or Little Rock, or some other point, because I could not use it as a hedge then. I mean I could not sell it and ship it out, and I could not operate there in less than 100 bale lots, that is with the same ease that I could on the other proposition.

Now, what happens? Every man who is long on contracts—and it is a long contract, you know, that supports the market—I mean it is the small buyer and the investor and the small speculator, we can not get rid of that class, they are all in there buying cotton.

Now, what do they do when it is rumored around that two hundred thousand or three hundred thousand or maybe a million bales are going to be delivered on contracts? What result? Fright, fear, they must run. You know what that means to a cotton market.

I was on the New York Cotton Exchange—it happened in New Orleans, too, but I believe I was there when cotton was 18 or 19 cents and the report came out that the Germans were going to get busy with their submarine boats and sink all ships. What did cotton do? It went down to 5 cents a pound.

How do we know that that same thing won't happen if there are a million bales of cotton suddenly offered on the market, at the interior points, where you don't have to ship it to New York or New Orleans?

The CHAIRMAN. You speak of the big interests. I do not identify just whom you mean by the big interests and I would like you to explain.

Mr. RANKIN. I mean by the big interests, the interests that have the money and do the financing, are able to finance a million bales of cotton. I don't care who they are and I am not going to try to specify them; in fact, I would rather not do that, because we know that there are many of them that might be able to do that. I mean the big operators, men who have at their command millions of dollars to do what they want to do with it.

The CHAIRMAN. Would Livermore be a big interest?

Mr. RANKIN. I don't know Mr. Livermore; Mr. Livermore is not a cotton merchant. I think he operates sometimes. I am talking about the fellow that handles spot cotton.

The CHAIRMAN. Well, he does not handle spot cotton.

A VOICE. He would not know a bale of cotton if he saw it.

Mr. RANKIN. What I am impressing on you is the fear that might be created, and the running from the contract. I have seen that so often. If a man does not want cotton, what does he do? He goes and sells out the contract. If they all do it at once, what will happen? We see a depressed market. It disturbs the goods market, it disturbs all classes of the cotton trade.

There is another point I would like to impress upon you. I believe the exchanges that buy the contract for the customer should have supervision of the contract. They are responsible. They have gone to a great deal of trouble to build up their reputation; and to see that the cotton is properly warehoused, to see that it is properly weighed; and also to see that everything is absolutely right. As it is now I think there can not be any complaint along that line.

We must remember that this contract is a buyer's contract as well as a seller's contract, and vice versa; and whenever we establish a condition or put on the trade a condition which makes it either favorable to the buyer or seller, I think that is not quite just.

I don't know of anything else that I can say, that is, in favor of it. It is very plain to me.

The CHAIRMAN. Perhaps Dr. Stevens would like to ask some questions.

Doctor STEVENS. I would like to ask if the small merchant is really interested particularly about the future market, any more than that the future market should function in the best possible way for his interests.

Mr. RANKIN. Yes; the small merchant is interested and it is important to him. We see that in every class of trade, particularly the cotton trade, and I think he has learned that when he sells a hundred bales of cotton to a mill he may sell it in July or he may sell it in June or April, and he has no protection at all against his trade except to buy a future, and I don't think he should be robbed of that privilege. I do believe, though, he might be forced to sell out his contract or, rather, he might be scared to death and sell it out before his time, before he could buy his spot cotton to advantage; or he might have to buy too early. The practical working of it should be if he sells a hundred bales for October delivery and sells it in May that he should hold that long contract until October, and then he has to buy his hundred bales and it may be that the firm that he buys it from wants to dump a hundred bales on him in Pensacola or Dallas, and he does not want it there, he wants his cotton at a certain place where he can ship it out.

Doctor STEVENS. If the contract were an even-running contract, or a contiguous grade contract, and an individual trader should accumulate cotton at a particular point and start to slam the market and the market went down it would go down for the current deliveries, would it not, and if it went down for the current delivery would not there be plenty of people to take even-running contracts and sell the more distant futures?

Mr. RANKIN. No; I don't think so. Yes; there would be plenty of people who would have plenty of finances to do it. They would depress the market——

Doctor STEVENS. Could not anybody do that in that case?

Mr. RANKIN. I agree with you; but the little man is not equipped for that kind of business to the extent that the other fellow is.

Doctor STEVENS. I understand; but there is no particular amount of money required to buy a hundred bale contract, is there, so far as your merchants are concerned, or even five hundred bales, is there?

Mr. RANKIN. Well, no.

Doctor STEVENS. Would it not be true as a matter of fact that if you started to slam the market you would probably lose all the cotton you had?

Mr. RANKIN. The fellow who has deliveries, who has the future contracts sold, as it goes down he gets his profits on the future.

Doctor STEVENS. But if he puts the price down there is nothing to prevent anybody from buying those contracts and selling them for the future deliveries, is there?

Mr. RANKIN. Yes, that is very true. I am strongly convinced, though, that even the even-running contract of which you speak would be [im]practicable and most of all for the producer. Look at this. Suppose a man raises a hundred bales of cotton. We know that is only a hundred bales and he certainly would not get a hundred bales of even-running cotton. He might get the whole ten grades, on that. Suppose he was forced to deliver. He could not deliver a hundred bales of even-running cotton.

Doctor STEVENS. Then you do not think with an even running contract or with a contiguous grade contract that there would be any particular difficulty in that mere fact on [*from*] this kind of manipulation that you have spoken of, commonly referred to as bear manipulations?

Mr. RANKIN. With a future contract I cannot see what would happen in that respect.

Doctor STEVENS. Even with the present contract is it not true that there are limits below which a person can not force down the current delivery position by threatening to deliver cotton?

Mr. RANKIN. Forces down below a certain——

Doctor STEVENS (interposing). Yes; is there not a limitation to the extent to which you can force it down?

Mr. RANKIN. Yes.

Doctor STEVENS. Well, what is the basis of that limitation?

Mr. RANKIN. I suppose that limitation was put on to prevent that sort of thing.

Doctor STEVENS. As soon as it became possible for individuals to buy the current *market* [month] that would become impossible?

Mr. RANKIN. Yes.

Doctor STEVENS. So that there is always a limitation there?

Mr. RANKIN. Yes; there is a limitation there.

Mr. BUTLER. A great many of these questions are more or less theoretical and the most expert cotton man is not prepared to answer them. I would like to ask on behalf of New Orleans whether or not we could be furnished the questions and answer them to-morrow. It is hard to answer them offhand in a satisfactory way. For instance, the question as to the even running contract is really an unfair proposition, I mean that is really an unfair contract. The present contracts are section 5 contracts, which we trade in, which are average grade contracts and not even running. Therefore, the question of discussing even running contract does not enter into the proposition of delivery at certain points unless it is first admitted that the southern point deliveries are going to be made at certain points.

The CHAIRMAN. But there is a provision in the law for even running contracts.

Mr. BUTLER. Yes; and I would like to explain that recently the section 10 contract was put in to allow a trade in every other grade except the ten. Otherwise we could never have traded in one hundred bales of good ordinary for future delivery, nor could we have traded in f. o. b. cotton at all. So section 10 was to permit trading in every grade except the ten specified grades, *including as low as those ten.*[?]

Doctor STEVENS. I would like to say just this in response to Mr. Butler's point. That with what little we have learned about cotton future trading there seems to be a considerable body of opinion that think if southern warehouse delivery is established it will be necessary to stiffen the contract, and it seems to be also quite generally admitted that the contract will be stiffened if you *run* [use] an even running contract or even the three contiguous grades contract. I understand Mr. Rankin to say that one of the objections to southern deliveries was the fact that the people would accumulate cotton at southern ports and frighten out people who had purchased contracts by the threat of delivery.

Mr. BUTLER. Or we might say by actual delivery.

Doctor STEVENS. Yes. The question I was raising was whether or not that *has occurred* [would occur] frequently as compared with the present contract, if you had an even running contract or a three contiguous grades contract, that was all.

The CHAIRMAN. I do not think that is a hypothetical question; I think that is really a very fair question.

Mr. RANKIN. Well, it does not exist, and of course I can not conceive of its existing, and I could not foresee what would happen if it did exist.

The CHAIRMAN. Your position really is this, is it not: That if there was a provision in the law for an even running contract, and there is such a section in the law, and there was southern delivery, and even though section 10 was strengthened beyond its present strength, your answer would be that there would be no business under section 10; is that it?

Mr. RANKIN. Well, I don't know whether there would be or not. I did not answer that part of the question.

Mr. BUTLER. I would like to try to answer that question.

The CHAIRMAN. Mr. Rankin has the floor.

Mr. RANKIN. I can't conceive of that three-grade contract or an even-running grade contract being practical, and it is quite difficult for me to prophesy what would happen if that were in vogue.

The CHAIRMAN. That is a fair answer. The answer is that you can not tell?

Mr. RANKIN. I can not tell. I am not a prophet.

Doctor STEVENS. There is one point I would like to raise. In other words, there seems to be some misapprehension here. As I understand the situation, the present contract while providing for a specific grade delivery, that is not the same thing that we mean by an even-running contract, although a specific grade delivery might be even running. The proposition we have in mind would go to the present sections of the contract which deal with delivery at differences, and prescribe in preference to that an even-running contract. It would require the delivery of an even-running contract, one hundred bales, say, but any one of the present ten grades, or perhaps an even larger number of grades, would be deliverable on that contract.

The CHAIRMAN. Now, then, does that alter the answer at all—because in this last question you left out the contiguous grade proposition?

Doctor STEVENS. I do not think so, Mr. Murdock, because the situation there is simply with the even-running contracts, or the three contiguous grade contract, they are simply differences of degree. It seems to be quite generally admitted by the trade that an even-running contract is a stiffer contract than the three contiguous grade contract, and those who have suggested that one or the other should be substituted for the present form of contract usually also said that they thought contiguous grade form of contract was preferable to the even-running contract, because it was not quite so difficult to deliver.

The CHAIRMAN. Then, your answer to the proposition, whether applied to even-running contracts or to the contiguous contract, taking in connection with southern delivery, is that you are not a prophet and you do not know just what would happen?

Mr. RANKIN. Yes, sir. That would have to be worked out.

There is another point I would like to make, which is this: Assuming that southern deliveries were allowed, and we will say a contract bought in New Orleans or bought in New York, and received

at Norfolk, a hundred bales at Norfolk. Well, the differences are not the same, as you know, in Savannah, or in Norfolk, or in Fort Worth, or Dallas, or Houston, or Memphis; so when a man bought his contract the very day he bought it he could not always tell or realize what it would be in New York or New Orleans; but he would not know whether he was going to receive cotton at a point that was advantageous to him or not, the difference might be narrowed one place, and I think it would be such a complex question and it would be so impracticable to work out the details—that is at other points.

Doctor STEVENS. One more question, if you will allow me. Would your attitude be the same as you have expressed if the questions [which] were involved had to do merely with delivery on New York contracts, at southern points, and had nothing to do with delivery at New Orleans?

Mr. RANKIN. Yes, sir; at either point, sir. I think it is impracticable. I think that New York is *the* [a] spot market. It has been proved here by much evidence that it is very easy to get cotton from the South to New York, and I have been told that it went from Norfolk to New York in 48 hours and delivered on contract last October.

Doctor STEVENS. Is it not very expensive to deliver it in New York; are not the storage charges rather heavy at New York?

Mr. RANKIN. Well, I am not thoroughly familiar with that. That could be corrected, I presume.

The CHAIRMAN. If the statistics sustain you, as you say they *are* [do], why does the Secretary of Agriculture refuse to recognize New York as a spot market? You say that it is a spot market.

Mr. RANKIN. I think that is for the reason that the actual sales are not made daily there as they are at other points, of the various grades. That is all.

Doctor STEVENS. Sales of all grades are made every day at New Orleans?

Mr. RANKIN. Not every day, because there is not a demand every day for every grade; but we think when there is any business being done that New Orleans does its share. That is, there is approximately the same amount of trading in New Orleans as in other markets.

The CHAIRMAN. I am asking only for information, and you may not be able to answer this, but if you can answer it I wish you would do so. I am not going to ask a hypothetical question but I want to know this if you can tell me. All grades of cotton are not dealt in daily in New Orleans?

Mr. RANKIN. Well, they are on the market. I think I would say all grades are on the market and they are offered for sale at some price probably.

The CHAIRMAN. Then all grades are not offered for sale in New York daily?

Mr. RANKIN. I do not think so.

The CHAIRMAN. And then your idea—I want to get this in my mind—is that the Secretary of Agriculture does not designate New York City as a spot market because all grades are not offered for sale on the New York market daily; is that right?

Mr. RANKIN. I could not say positively because I do not know what is in the Secretary's mind; but I presume that might be it. I could not say. That would be a proper inference I think.

Doctor STEVENS. Is it not an opinion quite commonly expressed by people in the trade that New York is not a spot cotton market?

Mr. RANKIN. Probably so; yes. I should think it might be termed that—and some would have another opinion. My opinion is that there are a great many spot transactions going on, because I have bought and sold outside the contract market.

Doctor STEVENS. It would be your judgment, then, that it is a spot market?

Mr. RANKIN. Well, it would be sufficiently so to take care of the—to bring a great deal of cotton there; that is, I think there is a great deal of trading going on among the brokers and the merchants.

Doctor STEVENS. Then you do not think that the bulk of the cotton that goes to New York goes there for the purpose of being delivered out on future contracts?

Mr. RANKIN. Well, I should say so; yes. I think so; I don't know, but probably so. Of course a great deal of cotton lays in storage after it is received on contracts.

Doctor STEVENS. Well, we have been told that New York is a very poor place to have rejections made on future contracts. Now, why is that?

Mr. RANKIN. Let me tell you that I have never seen a market in my life that was not a poor place to have rejections. If you ever find a different situation I would like you to let me know.

Mr. E. G. GLENNY (New Orleans Cotton Exchange). One thing I would like to say in reference to that even-running contract. There is a basic difference between the even running contract which the merchant sells to the spinner and the even-running contract which might be included in the future contract. The merchant makes a private arrangement with a specific man to take cotton. There is a meeting of the minds, as you designated, when they make that bargain. In the future market laws must be laid down which are inviolable, and when I sell a future contract I do not know to whom I am selling it, and I do not know whether there can be that meeting of the minds that you brought out.

Now, then, you must deliver 50,000 pounds of middling cotton, nothing below middling, nothing above middling, on the hypothesis that Mr. Stevens put forth.

Doctor STEVENS. That is not correct. The proposition I had is simply that the delivery must be even run, but it may be any one of the ten deliverable grades.

Mr. GLENNY. Yes; but it must be even running, in the sense that a contract of 50,000 pounds of cotton must contain nothing other than one of those ten grades. Is that correct?

Doctor STEVENS. Practically.

Mr. GLENNY. Then, if I deliver 45,000 pounds on a future contract of middling cotton, and one bale of cotton, or ten bales of cotton, in the judgment of the official classifiers belongs to *strictly* [strict] middling, I am in default on my contract.

I therefore must pay 25 points above the price of middling cotton then ruling in that market, and I would not sell such a contract and nobody else would who was sane.

Doctor STEVENS. Mr. Glenny, does it not occur at the present time when deliveries are made at the present time on future contracts——

Mr. GLENNY (interposing). You have a leeway——

Doctor STEVENS (continuing). That there are rejections?

Mr. GLENNY. Sure. Those rejections are what?

Doctor STEVENS. Failure of the contract to reach the grade.

Mr. GLENNY. Exactly; but they are rare.

The CHAIRMAN. They are what?

Mr. GLENNY. They are rare. That occurrence is rare. If we had an even running contract the exception would be when there was no rejections, and no man would sell himself into a hole of that sort. It is simply out of the question for a practical man to say that he would contract to deliver to some one he knows not of a contract based on future delivery, the terms of which are the strictest in the world, and lay himself liable to default. That is why I say that there would be no such contract, and you can not suppose that something will happen on something that can not exist.

Doctor STEVENS. *Doctor* [Mr.] Glenny, would it not be possible to correct the effect you mention by providing a tolerance to the extent of five or ten per cent, or, if necessary, have the delivery arbitrary, the way you do on spot transactions?

Mr. GLENNY. My dear sir, if experience teaches anything, it teaches that such a contract could not exist in a future market. We do not know what we are going to get when we sell our future contracts. We do not know what class of cotton God Almighty is going to make, and it is utterly impossible to conceive of any sane business man hedging cotton that he thinks he has and when he turns it over to the officials, United States classifiers, to classify, he finds he has not. I can not conceive of any human mind doing anything of that sort, provided his mind is sane.

Doctor STEVENS. But you think the spot merchant can still sell spot cotton in even running lots, can he not?

Mr. GLENNY. He can, and when I sell Mr. Stevens a hundred bales of middling cotton deliverable at his mill in October, I know Mr. Stevens' character and I know if I happen to give him a few bales of *strictly* [strict] middling that he will either put it to arbitration or I will make an agreeable allowance to him. I know when I sell a future contract that it is deliverable in even-running lots that I am not going to make any arrangements with Dr. Stevens because he is not going to arrange it with me——

Doctor STEVENS. Could not the rules arrange for making such a contract in the same way you do on spot contracts?

Mr. GLENNY. Then you would not have an even-running contract.

Doctor STEVENS. Do you mean to say that if you would send a hundred bales of cotton to a mill and that cotton did not come up to the grade required by your contract that you would not get a rejection of the whole thing?

Mr. GLENNY. No; if it is way off the contract, you would get a rejection.

Doctor STEVENS. Why is not the situation the same?

Mr. GLENNY. Because it does not have to be away off on a future contract. If it is a little off you are in default.

Doctor STEVENS. Suppose you use the three contiguous, then?

Mr. GLENNY. Well, if you want to take the contract up to such a point that anybody will sell—unless you put it way up above the price of spot cotton, that is one thing; but you are going to cut out the protection it gives to the seller.

Doctor STEVENS. You think that sellers can not sell the three contiguous [grade] contracts or an even running contract?

Mr. GLENNY. I am firmly of the belief that the provision of the law for a contiguous-grade contract, as you call it; that is, a certain number of grades up or down, I suppose you mean——

Doctor STEVENS. Three grades simply contiguous.

Mr. GLENNY. That would in a very short time eliminate the future market. I will go further and say that I am almost absolutely positive that the specific grade contract would shut the exchanges immediately.

The CHAIRMAN. I think it is quite important that we know what your answer is, for that last statement seems to be important. That is, if the law contained a provision that for a future contract cotton could be tenderable in three contiguous grades—that is, one, two, and three, or three, four, and five, or six, seven, and eight—one of those three—now, if that should become the law it would do away with future trading.

Mr. GLENNY. It would gradually drive out the future business, in my opinion.

The CHAIRMAN. Why? Can you tell me that?

Mr. GLENNY. For the same reason, in a way, that I have given, that you would not know what three grades you were going to have; you might approximate it and you might not. The second reason is that no future broker is going to undertake to carry contracts for men who might not or might be good judges of cotton, and who are absolutely sure to ship in the cotton that they think is going to deliver in those three grades.

The CHAIRMAN. Maybe you could help me along if I go at it this way: Formerly, it was possible to deliver on future contracts twenty grades of cotton?

Mr. GLENNY. Yes.

The CHAIRMAN. Congress cut that down to ten; is that right?

Mr. GLENNY. Yes.

The CHAIRMAN. It does not seem from your testimony here to-day to have worked a particular hardship on anybody to cut it from twenty to ten. Now, what would happen if you cut it from ten to three? If you took the first step without any disorder, why could you not cut it from ten to three?

Mr. GLENNY. Well, let us make it a reductio ad absurdum, and that you could not deliver at all, you would be penalized. The theory of the future contract is this: That such contract should be deliverable upon what is commonly known as bread and butter cotton; that is, cotton that is salable in any market in the world at any time. Experience has taught that those cottons run from middling fair to low middling. Anything below that becomes a specialty cotton. Anything above middling fair becomes a specialty cotton. People do not deal in that sort of cotton all the time but specialists do. Now, would you inflict upon a man a specialty cotton which he can not turn over and sell when he gets ready? Experience has taught that those are the proper grades that should be delivered on a contract and within the range of those grades.

Another reason, why should 10 or 20 per cent of a crop influence the price of 80 or 90 per cent of the crop?

The delivery of undesirable grades below middling, if that were feasible, would in all probability drag the contracts down in years of bad crops to a point where middling and above, low middling and above, would feel the effect of the lowering of the price, and in order to avoid that they made [the] low grade [low] middling and the high grade middling fair. You can do as much manipulation, if you want to call it manipulation, with fair cotton as you could with good ordinary, because very few people want fair cotton, and if you can *stimulate* [accumulate] a stock of fair cotton and tender it on a contract, you could harm the market. It is not the quality so much but it is the ability to turn that cotton over when you can get it, making it the porper grade for delivery; but to speak of anybody selling a contract which would be an even-running contract is beyond my comprehension. I, for one, as a broker, would paint my name off my front door and never attempt to do business or any such business as that.

The CHAIRMAN. Now, Mr. Gordon, you are next.

STATEMENT OF MR. G. A. GORDON, REPRESENTING THE SAVANNAH COTTON EXCHANGE

Mr. GORDON. Mr. Chairman and gentlemen, when the invitation was received from the Federal Trade Commission a meeting was called of the Savannah Cotton Exchange, and at that meeting several exporters who were not members of the directorate were asked to be present, several factors were also asked to be present, and several bankers were asked to be present, the idea being that all those who favored the changes or were opposed to them would have a chance to express themselves.

The meeting unanimously decided to recommend that there be no changes in the act as it is at present.

That is what I am instructed to say here by the Savannah Cotton Exchange, and what I say hereafter will be purely personal and does not represent necessarily the sentiments of the exchange.

I have listened with a great deal of interest to what has been said here, and it has suggested certain thoughts to me which I would like to express before I finish speaking.

Commissioner NUGENT. How many men attended the meeting to which you refer?

Mr. GORDON. There were about twelve directors on it and about eight outsiders. Some twenty men representative of the exchange were present.

I judge that the real object of this investigation is to find a means of preventing manipulation of the future contract market and at the same time to retain such a flexibility as will induce buyers, sellers, and traders in cotton to continue to use those markets.

It is a very delicate piece of machinery, and many of us have been impressed for many years at varicus times with the idea that the tail was wagging the dog, and we have always thought that that tail or a portion of it should be amputated. But if we get careless and cut that tail off right behind the ears, I fear we are going to kill that dog and that is the feeling of apprehension which most cotton men experience when you begin to talk about the changes in the contracts.

Now, cotton is a torment; the cotton trade is a torment to the legal mind and the scientific mind and the logical mind, because it is neither logical or scientific, and in many instances it is not legal either. [Laughter.]

Just take the matter that is troubling all you gentlemen about grades. A man not in the cotton trade hears about middling cotton and strict middling and low middling and strict low, and in his mind he immediately takes the *thickness* [fingers] of his hand and says, "There is middling, and there is strict middling, and there is low middling, and there is strict low, why should there be all this trouble?" Why is not middling middling? I will tell you why. Every one of these standard grades is a blend; it is not a specific grade.

The Government furnishes us with boxes which contain samples—twelve samples, I think it is—and those samples are not all alike. They represent cotton from various sections, they are different, and nine-tenths of the trouble in the cotton trade that worries everybody, including legislators, is this, that those four fingers [indicating] represent middling, and those four fingers represent strict low, and on an active market you can put all four into middling, and on a declining market these two [indicating] go down into strict low, and it is a fight all the time to get a delivery, the seller fighting for one thing and the buyer for a strict delivery.

Now, when we trade in spot cotton, we have a meeting of the minds and a delivery at once. We know, as has been so well expressed, exactly whom we are trading with. We know what our man wants, and differences are settled on the table before the cotton is delivered based on the samples, and that ends it.

If you undertake to do what Judge Stevens is suggesting over here——

The CHAIRMAN. He is not a judge; he merely asks questions.

Mr. GORDON. Well, call him the questioner; Questioner Stevens, then. It is not going to do what he thinks it is going to do, because what the Government has called middling cotton is, after all, a blend. The spinner is not going to know what kind of cotton he is going to get, whether it is middling, or low middling, or ordinary, or what; he is buying a Government ticket, and he does not know what he is going to get.

Furthermore, I think I can clear this difficulty about grades on the delivery of contracts by an illustration. The effort is, or has been formerly, to tie the contract market as closely to spot conditions as it can be tied. Now, I am a cotton factor. I am a seller of cotton. My cotton comes in and I go to some exporter and ask him to buy it. He buys that cotton from me, basis. He does not know whether I am going to deliver him 90 per cent good middling or 90 per cent low middling, and in the price he pays me for that cotton he makes an allowance to take care of that. His orders may have everything except low middling. If I deliver him a majority of low middling—that is, low and over—he is not going to pay me the same price for basis cotton that he pays me for an even run grade. If I were guaranteeing to give him middling cotton or strict middling he would pay me a better price for the even run grade than he will for the grade in a basis trade.

And that is what occurs when a man buys contracts. He does not know what he is going to get.

Furthermore, there has been a discussion as to why this future contract should be so flexible in the interest of the seller. Well, it is no more in the interest of the seller than in the interest of the buyer. If it were, you would not have any buyers.

My experience is, that the buyer has a heap more chance than the seller. Anyhow, he gets the best of it most of the time.

Now, there must be something in that contract that makes people buy it. You can not sell one contract on a future, unless there is somebody to buy it. There has to be a buyer for every seller.

As Mr. Clayton explained, when these merchants give their orders in the *contract* [country] to buy, and buy basis and take all grades until they can get that cotton and class it out, they want a protection, and therefore they report that they have bought so much spot cotton they sell so many contracts. Now, that may seem unnecessary, but in this meeting of the directors of the Savannah Cotton Exchange the bankers told us that if the future markets were eliminated, they would not loan us on our cotton anything like what they would loan when the future markets were functioning. Nor would they loan as much on unhedged cotton as on hedged cotton.

I am a factor. My cotton is not hedged. I go to the bank and they let me have twenty-three when cotton is thirty; but an exporter, who can show his cotton is hedged, can go there and get twenty-eight.

Now, it surely is a great advantage to the farmer to have an instrumentality which will permit small buyers, as well as large buyers, to borrow freely on their purchase of spot cotton.

There is another thought which does not seem to have been brought out here, but here is what is going to happen. If you make this contract market more and more difficult to trade in, and more and more dangerous to trade in, it is not only going to result in the large people only using it, but gradually, with the elimination of the hedgers and speculators, and the people who make up this market, these markets are not going to be used any more, and what will happen then? The entire hedging business will be transferred to Liverpool. Those people are not throwing restrictions about it, and we will simply be cutting our own throats.

I don't want to be understood as claiming that everything is perfect, or that the contract can never be improved, or that as we go on we will not find ways of making it a fairer contract and broadening its scope.

I assume that it is not the purpose of legislation to eliminate the future markets. If that method of trading is done away with and Liverpool only is used, and people cease to use contracts, then I do not hesitate to say that the spinner will pay more and the farmer will get less for his cotton.

The idea of bringing the producer and the consumer together is a fallacy. All day, every day in the year, the manufacturer is buying his cotton cheaper and the producer is getting more for it on account of this very legislation and manipulation, as some call it, and trading in futures, which means people take a risk and take an insurance, and take a view of the market, and merchandise their crops, so that in the last analysis, the consumer is getting it for less and the producer is receiving more.

The CHAIRMAN. Maybe you could make this easy for me, and if so, I wish you would do so. This is very technical to me. You live in a complex age, and you are the product of a complex age; you are dealing in a transaction daily that is quite beyond me; it is difficult for me to grasp it, and I would like to get some real light on this proposition.

Now, you say, in the course of your remarks—and they have been very enlightening—that the buyer really has the advantage of the seller.

Mr. GORDON. No; I said they out-trade me.

The CHAIRMAN. They out-trade you?

Mr. GORDON. Yes.

The CHAIRMAN. Well, that puts a different view on it and really changes my question.

Mr. GORDON. That was a little jocular on my part.

The CHAIRMAN. All right. Now, you will agree with me that if we are going to have justice in trade that the buyer and seller must have equal opportunity under the law, one against the other?

Mr. GORDON. Yes; I agree with you.

The CHAIRMAN. The buyer is anxious to buy and the seller is anxious to sell, and the seller does not have to sell under the law, and the buyer does not have to buy. So when you bring them together under a statute they stand all square, and without an advantage on the part of either one. Now, I will grant you that if you, a cotton merchant, have some cotton to sell to a spinner, if you meet the spinner and show him a sample and he makes a contract to take the cotton then and there, and takes the cotton, and you take his money, you have stood on an actual balance, on an equality. That is true, is it not?

Mr. GORDON. We both think so, anyway.

The CHAIRMAN. That is the old, simple way of doing business; but you are in a complex age, as I said, and your transaction, when it comes to forward buying and selling, in the cotton business, the Government has provided a statute which you say is more or less of a restriction over Liverpool. I don't think you could tender red dog at Liverpool and get away with it.

Mr. GORDON. No; I said if these additional things were put on, it would restrict it.

The CHAIRMAN. I see; but the Government has put a statute through which says that you shall do certain things in forward buying in a certain way. Now, there is no counter, no seller in that case; but you write a contract as a seller, in which you propose to sell me, say next March, so many bales of cotton.

Mr. GORDON. May I correct you?

The CHAIRMAN. Yes.

Mr. GORDON. That is not an exact description of the situation. There are exchanges where brokers alone are permitted to trade. Those brokers trade with one another, but in doing that they represent the purchaser and the seller of that contract.

The CHAIRMAN. All right. We will substitute that proposition. There is a contract to sell and deliver a certain grade of cotton at a future date. Now, then, the broker, representative of some seller there, and a broker, representative of some buyer, on the same floor, stand face to face, but there are no actual goods present and it is a complex thing. Now, what I want to get cleared up is this point,

the Government says in its statute that here are ten grades which you can tender. Is that right; have I got that right?

Mr. GORDON. Yes.

The CHAIRMAN. The date arrives. If I have not canceled out my contract by some future trade it is up to me, the seller, to deliver. Now, then, I can't get it out of my head here to-day that if I am granted the privilege of shoving off on you one of ten grades that in that instance I am getting the edge on you, even though we are represented by brokers, that somehow or other I have got the edge on you.

Mr. GORDON. I will explain how you have not.

The CHAIRMAN. All right.

Mr. GORDON. I will say two things: In the first place, if you did have the edge you would not have bought it way back in November for delivery in March. In the second place, your protection is this: That the Government has now thrown such safeguards around the grading of the cotton you receive from me that either before or at the time, or after you receive that cotton, you can turn around and deliver it to anybody else for exactly the same grades. There is your protection.

The CHAIRMAN. I don't get that last.

Mr. GORDON. Suppose we are trading in October and you bought back from me last March cotton for delivery in October, and October came around, and I took the opportunity to deliver you these grades that you think would be undesirable. You can redeliver those grades immediately without any change in the grades to anybody else in October, or if you want to carry them and sell them at some future time, on some future market; you are not forced to deliver those grades to your spinner client, you have an assured outlet under the law for those grades at whatever the current price of the month is. You can turn around and redeliver them. In the old days where you did not have these differences fixed in this way, and where you did not have the Government graders, you could not do that.

Commissioner NUGENT. You are speaking now of the delivery of a contract, not the delivery of the cotton.

Mr. GORDON. I am speaking of the delivery of the cotton. He can turn around and sell to somebody else.

Commissioner NUGENT. You are talking about a contract. Suppose he had that contract and on the delivery date demanded the cotton. Now, if you have the privilege of delivering one of ten grades, would you not have the edge over him, or would you not?

Mr. GORDON. I don't think I would, for two reasons. In the first place, he could sell another contract and deliver it to somebody else; and, in the second place, the tendency of the future market is to always have delivered grades which at that moment the spinners least need. That being the case, the tendency of the future market is to be slightly under the spot market. The same way *is* [as] when I sell Mr. Clayton basis cotton, and the cotton comes in, I can deliver him anything in the range of grades. That does not scare him out from buying, he merely buys at a slightly lower price than he would for the reigning grade. That is the answer to that.

The CHAIRMAN. Of course, now I get your answer twofold, and I don't know whether it is agreeable to me or not as an answer; but one proposition is that in the first instance I don't have to go into this contract, because I know the conditions of it. All right. But suppose I am a spinner and I want to buy some cotton and I want it next October, I don't want it now. I do have to trade. And here is the law under which I have to trade. So it is not a question of my taking it or not, I have to go in and trade. Then I approach Mr Gordon. He is in this business. I say "Mr. Gordon, will you go into a contract to sell me some cotton next October?" Mr. Gordon says, "Surely." And then next October comes and you put me in some cotton that I don't want. Now the fact that you have a choice of ten grades, don't you think, gives you kind of an edge on me?

Mr. GORDON. I would like to answer this way. You are familiar with banking, are you not?

The CHAIRMAN. No; I am not, except I am somewhat familiar with overdrafts. [Laughter.]

Mr. GORDON. The system in the cotton exchange is exactly like a clearing house. You don't go and take all the money every day and carry it from bank to bank to clear the thing. You have brought out a very good point about the spinner. What would the spinner do? Well, if the spinner did not use the future markets, there would not be any future market, because there would not be anybody to buy all this cotton that is sold. Reverse this proposition of what Mr. Clayton says a merchant does, the spinner does exactly the reverse. He knows he will want some cotton in March, and he is saitsfied when March comes he will have a big price. So he goes into the future market and by buying a March contract against an abnormal price he insures himself against that abnormal price which he may have to pay for that cotton. But he is not going to take that cotton. He goes to Mr. Clayton and says, "Mr. Clayton, I want a hundred bales of even running strict middling." Now Mr. Clayton is buying *for* [from] me basis contract, all grades at 28, but he does not sell this fellow even running strict middling at 28, he says, "You will have to pay me 30 cents." Now, when he buys the cotton at 28 cents from me Mr. Clayton sells a contract as a protection, because he does not know what he is going to get.

The CHAIRMAN. And he has no intention of taking it.

Mr. GORDON. It is like a clearing house, a certain amount of cash has finally to pass to clear the thing, but otherwise there is not an intention of delivering physically all this cotton. Cotton weighs 500 pounds a bale, and it takes money to handle the actual cotton. Dr. Stevens made the point that if it was even running grade and it was a desirable contract, and it was offered too low—I mean the even running grade—that the small man would be ready to pick it up, if it was a cheap proposition, just as the big man was; but, gentlemen, that is a fallacy. A hundred bales of cotton are now worth over fifteen thousand dollars, and as the prices advance Mr. Banker does not follow up as fast as that, and the margin keeps widening, so that whereas when cotton is ten cents a pound, you could borrow within one cent a pound, or five dollars a bale, when it gets to fluctuating up to these high prices the margin demanded by the banker, the amount he will loan, is so far away from the actual value that the small fellow can not take up that spot cotton, he can not do it. Dr. Stevens made the point that there would be a mass of small buyers ready to snap up this cotton, but they can not do that. Everybody does business on other people's capital,

and when he goes to the bank he finds that there is such a wide margin he can not put up the cash to finance it.

The CHAIRMAN. That is all very interesting.

Doctor STEVENS. There are a couple of points that I would like to ask about. I judge from the speaker's statement that he assumed that it was necessary in order to put in southern warehouse delivery to change the law, the present cotton future act.

Mr. GORDON. I am glad you mention that. I do not think it is necessary to change the law, to have southern certification at all. You could have southern certification at points that desire to be designated and have graders there—but you have to deliver it.

Doctor STEVENS. But the attitude of the Savannah exchange, as you expressed it, was that there should be no change in the law. Now, that is to be understood as applying to southern delivery points?

Mr. GORDON. Yes; the exchange expressed itself against southern delivery.

Doctor STEVENS. Was there any expression of opinion at that meeting as to why they were against it?

Mr. GORDON. Yes, there were two reasons given. Personally, I was not enthusiastically against it, but I was overruled on that. The reasons given were these: That if the southern delivery became widespread it would mean that there would be an enormous amount of cotton graded and certified by Government graders, and that that cotton would be imposed on the mills as being those grades, without any chance for the mill to object. In other words, supposing I am a seller and I had a hundred bales certificated and they were called middling cotton and I chose to ship them to a mill as middling cotton, and the mill said, "That is not the middling we want," and I would say, "I don't care, here is a yellow ticket that says it is middling cotton and the Government says it is middling cotton, and you have got to take it."

Now, that is all right if that is restricted to a future market where everybody understands, where everybody knows what the situation is before he goes into it; but it would play heck if you undertook to have a Government contract with the mills. That is the main objection they had to it. I am connected with one of the large compress companies in Savannah, and it would be to our interest to have southern delivery and southern certification, and I hope we get some sort of certification, as I speak of, but as a spot merchant, as a spot factor, I can readily see that it might cause tremendous havoc in delivery from merchant to mill if we had a Government class attached to every bale.

Doctor STEVENS. You said there were two objections.

Mr. GORDON. The other objection is one that I don't altogether agree with; but it is the objection that there would be an enormous mass of Government certificated cotton in various markets which would prevent the buyer from buying freely, and in that way would put the future market out of business.

Doctor STEVENS. How would it affect the theory I understand you to express with reference to taking up cotton on contract by small buyers, if we reduced the contracts to 50 bales and gave them in addition a period of free storage, ten or fifteen days, extended that privilege to them, where they would have storage free of charge?

Mr. GORDON. I really had not thought of that. Those are details exactly like the detail of thirty days in the delivery, allowing thirty days in which to deliver. I don't know how that would work out. As a warehouseman I am opposed to free storage. [Laughter.]

Mr. FINKE (New Orleans Cotton Exchange). May I ask a question?

The CHAIRMAN. Mr. Gordon has the floor. You may if he does not object.

Mr. FINKE. Mr. Gordon has very ably presented his view of the situation, and you have asked him some questions about the advantage a seller may have over a buyer in connection with the delivery of cotton on contract, and I would like to ask him as to his views on this situation. The chairman has expressed a theory that the seller has an advantage over the buyer through the ability to deliver any one of or a number of ten grades represented by the contract, apparently in the belief that certain grades may be delivered to him which are of less use or desirability than other standard grades, and, theoretically, as I understand the Chairman's question, the seller therefore has the advantage over the buyer. Now, I would like to ask Mr. Gordon if in his opinion that theoretical advantage the seller has over the buyer would not be entirely dissipated if the differences between grades were correctly quoted as to their value relation to, say, middling cotton. In other words, if undesirable grades, or grades that were not readily salable, were delivered on this contract, were so quoted, would not that theoretical advantage be dissipated?

Mr. GORDON. I think the answer to that question is that those things are entirely a matter of price. In other words, this use of the ten markets to fix the differences between grades was for the purpose of making the least desirable grade take a discount which would protect the buyer when he took them up. Is not that correct?

Mr. FINKE. Yes. If the differences were proper, this theoretical advantage would be dissipated. Mr. Gordon, I do not believe any better system can be devised than the use of these ten markets, and I think that if those markets are kept in line, to make their differences reflect the actual trading, that the settlement of differences on the New York Exchange is about as close to what it ought to be as you can guess.

The CHAIRMAN. Of course, you have been long in this business and you are pretty wise, and you must have a contempt, as I have, for any average. If you will let me make up the constituent figures, I will get the average I want.

Mr. GORDON. The cotton business is an approximation, and that is why I said it was a torment to scientific and legal people. There is no use in trying to pin it down to black or white, it shades into gray.

The CHAIRMAN. What would you say to the proposition of giving the buyer the option on the grades to be delivered?

Mr. GORDON. Well, I think that would be the reverse of this proposition.

The CHAIRMAN. Do you not think it would give him a slight advantage?

Mr. GORDON. Yes; but you would not have any sellers.

The CHAIRMAN. Mr. Harriss, we will be glad to hear you next.

STATEMENT OF MR. BAYLIS E. HARRISS, REPRESENTING THE GALVESTON COTTON EXCHANGE, GALVESTON, TEX.

Mr. HARRISS. Mr. Chairman, I am from Galveston, and I believe that everyone here knows it; but for fear there might be some who do not, I would like to say that Galvestion is the largest cotton port in the world. We have a storage capacity there, Mr. Chairman, for about three million bales.

I am here, Mr. Chairman, representing the unanimous views of the members of the Galvestion Cotton Exchange. I am also a friend of the farmer, the producer, and in connection with that I might say I am not a candidate for office.

I feel that in the interest of the general cotton trade, and in the interest of the producer primarily, and the consumer, secondly, that any changes whatever in the present futures contract, would be of very grave and of very dangerous consequence.

The CHAIRMAN. Excuse me, but I would like to ask whether you were born in Texas?

Mr. HARRISS. Yes. That is nothing against me, is it?

Mr. CHAIRMAN. No, indeed; I was born in that same latitude, and I don't hold that against you. But you spoke about the producer. You have a great, big population down there that is raising cotton—Texas, Arkansas, Oklahoma, and Louisiana—and Galveston is the natural seaport, situated as it is on that Gulf coast, and you are handling quite a lot of their business. Now, they have quite a hard time of it, because cotton is not so easily put in and not so easily gathered, and then when they have big crops they have low prices and then they have the boll weevil and poor crops and high prices, that is, they have high prices when they have no crops. Now, they take a very simple commodity off a shrub with great difficulty, and it is compressed. It is a commodity that is universally in demand over the world. The United States is possibly a monopolist in most of the grades of cotton outside of certain Egyptian cotton. Now, you put their commodity into a very difficult market. You are a young man who has grown up in this business and you know all about it. Is there not any improvement in this market that you can suggest for the benefit of the seller out there in the field?

Mr. HARRISS. I have been in this cotton business for 24 years.

The CHAIRMAN. I know you are not running for office, but I am, and I would like to know, is there not some improvement you can suggest.

Mr. HARRISS. Mr. Chairman, I have been in the cotton business for 24 years, and I was not in the cradle when I started, and I have been hearing, year in and year out, ever since I have been [in] the business, about changing this future contract business.

They did make one change that was very helpful, not only to the market, but to all concerned. That was when they passed the Smith-Lever bill. We are never going to make this contract perfect. I feel that the contract is just about as near perfect now as we will ever be able to get it. We may improve it in one respect, but perhaps injure it in another respect.

I have here, Mr. Chairman, a carefully prepared statement of the views of the members of our exchange, and for the benefit of these gentlemen here, if you will permit me I will read it, and then leave it with you for your future reference.

The CHAIRMAN. We would like to hear it for our benefit as well as theirs.

Mr. HARRISS (reading prepared statement):

FEDERAL TRADE COMMISSION,
Washington, D. C.

GENTLEMEN: Referring to your letter of the 9th, over the signature of Mr. Otis S. Johnson, secretary, inviting the views of this organization and its members engaged in cotton production and in the cotton trade, particularly with reference to the revision of the futures contracts, including (1) grades tenderable, (2) places of delivery, (3) establishment of differences, we beg to advise on—

1. *Grades tenderable.*—In our opinion it would be a serious mistake to curtail or restrict the grades deliverable on futures contracts beyond those that can now be tendered. If any change at all is contemplated, it should rather be made in increasing the grades that can be tendered. In a low-grade crop year, such as the present year, decided advantage can be taken by mills and manufacturers of cotton, and speculators, of the fact that grades below low middling Government standard, and below middling tinged can not be tendered on futures contracts. There is thus absolutely taken from the producer the benefit and competition emanating from the speculative demand that would come in a short-crop year from the demands and necessities of the contract market for the lower and at present untenderable grades.

We also hear there is in contemplation a proposal that the exchanges should deal in three different contracts:

1. Strict middling and above, white.
2. Middling and strict low middling, white.
3. Low middling, Government standard, and all off colors that can be tendered on contracts.

Such a system in our opinion would prove both impractical and inimical to the interest of the producer. It would not control premiums or discounts on grades any more than they are controlled now. It would so restrict trading in futures as to eventually narrow the futures market to such a point that it would impair if not destroy its usefulness in the cotton trade. It would put a premium on squeezes and corners by the shrewd manipulator, with no corresponding benefit whatever to the producer, and cause the futures market to lose its broad general character, its trading value, and ready negotiability, and become but a machine for the gain of the shrewd trader. There can be no gainsaying that the futures market now affords avenues and opportunities for speculation. On the other hand, if it is broad and general, it permits the elimination of speculative risks in its facilities for legitimate "hedge" buying and selling of a commodity whose fluctuations depend upon world conditions and world trade. Anything done to hamper the proper functioning and operation of such an instrument in the trade should be looked on with suspicion, and new departures should be tested in the laboratory of practical common sense and experience.

2. *Places of delivery.*—Admitting that New York is not a natural spot market, and that the amount of spot cotton actually handled in New York is insignificant compared to what is handled at other places, New York is the financial center of this country, and trade follows finance more certainly than it ever followed the flag. New Orleans, a large spot market, is the only city in America that is able to sustain a futures market in conjunction with New York. If spots were the determining factor of a successful and broad futures market, other cities would have succeeded in establishing futures markets.

In our opinion it would be a policy fatal to the producer and to the manufacturer—the two elements most vitally concerned and most thoroughly to be considered in the cotton trade—to establish a system of permitting delivery on New York contracts at any place other than New York. It would avail but little to the New England cotton spinner who bought January contracts, to find delivery made to him in Memphis when the actual character of cotton that he needed in his mill could best be found in Galveston, and the southern mill owner who bought his contracts, hoping and expecting that he could obtain delivery at or near Greenville, S. C., would find little advantage in having his cotton delivered to him in a Dallas warehouse instead of New York. The more places of delivery that are permissible under the contract, the less desirable would the contract become to the dealer or to the manufacturer of cotton; the less support there

would be to the futures market from legitimate trading, and the more power would be given the speculator for manipulations and squeezes.

We may find a comparison in the sugar markets to-day. The futures market for raw sugar is a broad and reasonable one. Delivery can be made only in New York. The market for refined sugar is an absolutely narrow and impossible one. Delivery can be made at the option of the seller at either New York or Chicago, delivery at the latter place allowing the rate from New York to Chicago.

No one will buy freely or trade in a commodity not knowing in advance the place of delivery, and to withdraw this support from the market will militate to an alarming extent against the southern producer. Those who may have placed their cotton in various southern warehouses available for tender on New York contracts will be destined to find their goods not necessarily unmerchantable, but salable only at a sacrifice to those who would be in position to take advantage of their condition. Far better "to endure the ills we have than fly to others that we know not of."

3. *Establishment of differences.*—Suggested changes along this line are necessarily in the nature of an experiment. The present plan has every element of fairness, and while not by any means infallible in its application, has on the whole proven rational, fair, and thoroughly satisfactory. The Bureau of Markets maintains a force whose duty it is to visit the ten designated spot markets and to seek out the reasons why any apparent disparity exists in any one of them, and to reconcile the differences between grades to an equitable basis, dependent entirely on demand and supply. Few, if any, attempts to interfere with natural laws by legislation have ever availed. It is extremely doubtful if any such legislation can have anything more than a temporary influence, and there is, in our opinion, no ground for changing the present plan.

CONCLUSION

The whole matter—the three points mentioned and all others—will be solved by the spirit in which the Federal Trade Commission, so far as their report is concerned, will approach the matter. If it is their belief that the futures markets serve no useful purpose, some of the changes proposed above might be very efficaciously used to stifle and smother futures into a condition of innocuous desuetude, and a state of speculative coma can be brought about in the cotton market by restrictions that will eventually destroy the futures market, if such is the purpose. If, on the other hand, the matter is approached in a thoroughly judicial spirit to ascertain the good and the bad, we submit that the remedies to be supplied should not be mere theories and impractical ideas. Speculative interests have frequently used the futures market to unduly depress the price of cotton to the injury of the producer, and have abnormally raised the price of cotton at times to the injury of the consumer and the manufacturer.

That it will be more possible for similar conditions to arise without the futures market we assert is attested by conditions that are frequently complained of in various commodities where no futures market exists, and where no special means or marks of speculation permit fear of defeat of their plans in the minds of those who would manipulate and control the price of a great commodity. If the cotton futures market is to serve the producer, the manufacturer, the consumer, and the trade generally, the contract should be made one of strength and ready negotiability, with its conditions appealing to both buyer and seller, otherwise it becomes one-sided and can not move with the facility and ease which its very nature and mission require.

This is signed by me as president of the Galveston Cotton Exchange.

The CHAIRMAN. You said you were not running for office. Did you ever try to be, economically, for the producer and the consumer at the same time? I notice in this paper that you have just read you state that if the future market was done away with it would injure both producer and consumer. It is my observation that frequently the producer and the consumer do not travel the same economic road.

Mr. HARRISS. Well, they do not, Mr. Chairman; but my opinion is that if we do not have a producer there will be not any need for the consumer. I think on the producer depends the prosperity of this whole Nation.

Commissioner NUGENT. What, in your judgment, is the proportion of the actual producers of cotton who deal in future contracts?

Mr. HARRISS. Well, comparatively none, it is very insignificant. You mean directly, do you, sir?

Commissioner NUGENT. Yes.

Mr. HARRISS. Comparatively few directly; indirectly their entire crop is handled through the distributor or the middleman, as the politicians call him.

The CHAIRMAN. All the cotton exchanges closed during the war, did they not?

Mr. HARRISS. Yes; they closed about the 31st of July, 1914.

The CHAIRMAN. How long did they stay closed?

Mr. HARRISS. Until about the middle of November or the 1st of December.

The CHAIRMAN. Of that same year?

Mr. HARRISS. Yes, sir.

The CHAIRMAN. That was at the beginning of the World War?

Mr. HARRISS. Yes.

The CHAIRMAN. But they were open during our participation in the war, they were open when we got in the war?

Mr. HARRISS. Yes; and in the meantime *that* [?] the producer suffered very seriously.

The CHAIRMAN. So they closed at the beginning of the war and do you remember what was the reason given for their closing?

Mr. HARRISS. Well, I think it was just a question of everybody being upset, and they did not know what was going to happen.

Mr. GLENNY. The financial fabric of the world was broken down.

Mr. HARRISS. It was due principally to financial conditions.

The CHAIRMAN. It has always been a mystery to me, your cotton exchanged closed and the New York Stock Exchange closed; but the wheat exchanges generally went ahead, they went ahead in fine shape.

Mr. HARRISS. Mr. Chairman, up to that time I think we were exporting about two-thirds of our raw cotton in this country.

The CHAIRMAN. The answer, then, is, in your mind, if you have a real answer, that it was an interruption to the prospective transportation of export cotton that caused the trouble; is not that true?

Mr. HARRISS. No, sir.

The CHAIRMAN. What was it, then; why did you close up in 1914?

Mr. HARRISS. Well, for instance, at that time there were a great many outstanding shipments and drafts on Europe for cotton that had been sold and shipped, and the banks here began to notify us that these drafts were unsafe; we did not know just what our position was going to be in exporting cotton. I think the main thought, or the original thought, with everybody on the impulse of the moment was that we were ruined, that we were not going to be able to export any cotton that season; and, consequently, there were no buyers for future contracts.

The CHAIRMAN. This keeps occurring to me, although there may not be anything in it. Here is a commodity down south, and you have a monopoly in that commodity. It is raised with great trouble against bugs and water and rain and everything else, and it is gathered with great difficulty, and here are a lot of folks that have a commodity that they have raised to sell, and you say this future market is of great benefit to these folks who are the producers, that you and I agree are

the mainstays of the Nation; but when an hour of distress comes and things are going to pot your ever ready help in the shape of a future market is withdrawn from the support of those folks and that leaves them with a bale of cotton bearing down on their backs and nowhere to sell it. How about that?

Mr. Harriss. Well, Mr. Chairman, we had never been through that experience before, it was something we had never run up against.

The Chairman. It was new to me, too. I simply thought, now, why does not the future market hang on, why does it not help Mr. Cotton Raiser out this time, if it is such a grand, good thing, why does it not perform now?

Mr. Harriss. Well, this thing was so tremendous and world wide in its extent, something that we had never seen before, that I would probably excuse it on account of those conditions.

The Chairman. It makes you wonder, if you are trying to dig into the truth of this thing and really get at the facts, a lot of the actions and a lot of the things that happen to confuse you. You fellows closed up when the World War came on, and the cotton future market, so far as it benefited the producer, was a prop that was taken away and he was left alone with a bale of cotton on his back. Now, when it came to wheat there was no closing of the future exchanges in wheat, they went along; but when we got into the war then the future market for wheat was taken away and the Government fixed the price of wheat. In other words, the Government, in 1917, did not call on the future grain market to help the producer, it shut that market up, and in your case you shut up yourselves; so that when a man digs into this complex question of a future market and tries to find out about it, he wonders why in cotton, in the one instance, that happened, and why, in wheat, in another instance—why in each case the future market was taken away, one the speculative market in cotton and the other the speculative market in wheat, and I would like to know why it was.

Mr. Harriss. Well, was this country exporting anything like the amount of wheat then?

The Chairman. Yes; we were pretty large exporters of wheat.

Mr. Harriss. I think it would be interesting to get the views of some of these other gentlemen about this. My thought is that it is something that never happened before, and probably never will happen again, one of those unusual conditions, when there were millions of outstanding contracts with Europe both in the nature of drafts and goods enroute to them, and unfilled contracts, and no exchange market. You see up to that time we had negotiated all our transactions with Europe in foreign exchange. Now, most of it is done in dollars.

The Chairman. I would say the difference was due to the difference in marketing a commodity, but you and I live out in that section of the country which runs from the Gulf to Canada, and we ought to be able to do something to solve that, we being about the same age.

Commissioner Nugent. What was the production of cotton in this country last year, in bales?

Mr. Harriss. It was slightly under ten million bales, about ten million bales.

Commissioner Nugent. Can you tell how many million bales of cotton were sold on these future contracts?

Mr. Harriss. We raised about ten million bales and I suppose there were sixty or sixty-five or seventy million bales sold.

Commissioner Nugent. How many on your exchange?

Mr. Harriss. We have no future market there. It is a spot market. Sometimes there are several transactions on the same thing; in other words, I may sell a thousand bales of cotton to Smith and he hedges it and sells to Jones, and Jones hedges it, and you have got the speculator in between there. So that is the reason it is often said that you sell a hundred million bales of futures when you only raise ten million bales of cotton. That explains that situation.

Commissioner Thompson. I would like to ask one question. You said that there were certain commodities in which there was not a futures market, in which the speculator, because of his actions, influenced the market much more than in those instances where there was a futures market. I would like to have an instance of that type of commodity.

Mr. Harriss. Well, I suppose you could call that person a speculator, or most anyone else, if there were no future markets in the cotton business——

Commissioner Thompson. I mean something like butter or what commodity were you thinking of there?

Mr. Harriss. I can come pretty close to home on that. I would say vegetables.

Commissioner Thompson. Vegetables are not a thing in which there is an international market.

Mr. Harriss. No. I suppose there is no future market on eggs, is there?

Commissioner Thompson. I wanted to get some instances.

Mr. Harriss. Well, Mr. Commissioner, I suppose there are any number of instances, if the buyer is able to control a product.

Commissioner Thompson. But in your paper here you read you said there were instances where there was a greater influence of the speculator on a product than in the case of cotton, where there was a futures market, and what I wanted to know was a case of that kind.

Mr. Harriss. Well, I would say that there are any number of farm products; probably some of them are more or less perishable, but in the case of most any commodity, where a speculator, or whatever you might call him, can go in and deal in that commodity——

Commissioner Thompson. You have no specific instance in mind?

Mr. Harriss. No, no; just in a general way.

Commissioner Thompson. In your discussion with the other members of your exchange, did they bring up any such case?

Mr. Harriss. No specific cases, just in a general way. Most any product that is not regulated or influenced by a market.

Gentlemen, I think from a selfish standpoint, although I may be misrepresenting my own interests, I believe it would be the finest thing in the world to have the southern warehouse delivery, because I believe that either one of two things would result. I think it would give us either a more one sided contract or a seller's contract, and a contract that would be much more easily subject to manipulation; or I think it would have the effect of closing up the futures market altogether. I think the latter is very probable, in fact I do not believe it would be very long before you could hang the crepe

on both the cotton exchange door in New York and the cotton exchange door in New Orleans, in case the southern warehouse delivery was made a law, in case the New York Cotton Exchange decided to adopt that.

The CHAIRMAN. Mr. Howard wants to ask you a question.

Mr. HOWARD. In connection with the question of why cotton exchanges in this country closed in 1914, after the breaking out of the World War, I would like to ask you whether or not it was not in your experience that transportation was a very vital factor in that condition; to what extent did ocean insurance rates become a factor; to what extent were ships for transportation procurable; to what extent were ships being needed for wheat and other essentials in the war taken out of the cotton trade; to what extent was that the result of the divided opinion as to whether England or Germany would have mastery of the seas, and whether or not there was any assurance in that regard until after the battle of the Falkland Islands, when England drove Germany off the seas and prevented the capture of cargoes of cotton; to what extent did those things operate as an immediate reason for closing the cotton exchanges—when your total production was something like fifteen million bales and your consumption something like less than seven million bales?

Mr. HARRISS. I think all those things tended in a way to create the conditions, which, as I said, the world had never known before, and which the world will probably never know again.

Doctor STEVENS. Mr. Harriss made the point that he thought the grades on contracts should be increased. I would like to ask Mr. Harriss how he would consider that would affect, first, the price of the contract, and, secondly, the discount at the present time on the distant months under the near months.

Mr. HARRISS. Well, I think it would have a tendency to perhaps make more of a seller's contract out of the future market, the present futures contract.

Doctor STEVENS. Depress the contract price?

Mr. HARRISS. It might have that tendency. However, it does seem unreasonable that such grades as *strictly* [strict good] ordinary, middling tinged, should be outlawed or, perhaps, *strictly* [strict low] middling spotted.

Doctor STEVENS. Would the discounts widen under such an increase in the deliverable grades?

Mr. HARRISS. It might, Doctor, although, arriving at these differences through the average of these ten designated markets, it seems like the value of those grades should be taken care of.

Another thing, too, is when you get down to low middling, down to strict [good] ordinary and good ordinary, and some of these colored cottons, you very frequently run into a character of cotton which might be termed bolly cotton or snap cotton. There is some question as to whether those grades would be considered marketable or tenderable or not. We in Galveston are well satisfied with the contract as it now stands, and we believe it would be decidedly against the interests of the producer—it would not be beneficial to the consumer either—to make any change whatever.

Doctor STEVENS. You do not think, then, that by any revision of the present form of contract you could offset the possibilities of manipulation if you had southern warehouse delivery—or the increased possibilities of manipulation?

Mr. HARRISS. No; I do not, Doctor. In fact, I want to profess a little ignorance as to the reason for this hearing. I do not know whether it was altogether due to the rumors or reports, the facts concerning manipulations or squeezes. I believe that southern warehouse delivery would give the larger houses a much better opportunity for manipulation or squeeze than is now the case.

Doctor STEVENS. Would you take that position if the delivery were to be made on New York contracts at only one southern point?

Mr. HARRISS. No; not altogether. It might have a tendency to weaken that contract to some extent; but I do not know that I would particularly object to one southern point in, say, for instance, New Orleans.

The CHAIRMAN. We thank you for your statement. We will now hear from Mr. Hogan.

STATEMENT OF MR. THOMAS J. HOGAN, REPRESENTING THE NORFOLK AND PORTSMOUTH COTTON EXCHANGE, NORFOLK, VA.

Mr. HOGAN. Before I begin to say anything in regard to what our cotton exchange desires, I am going to presume to answer a question that you asked Mr. Harriss.

I am a bit doubtful but I think it might clear things up somewhat. You asked him why the cotton exchange closed and why the wheat exchange went on. Well, I have always noticed when anything bad happens cotton suffers first. Anyway, I think it is historically proven or shown that wheat is one of the sinews of war, and that consequently a war generally booms wheat, and the fact that it is easy for wheat exchanges to function, when a cotton exchange, if it is not closed the pressure of cotton would have put cotton down to a value that was absolutely nothing, explains that. It would have put cotton down to nothing or under what it actually went to.

The CHAIRMAN. It went to 6 cents.

Mr. HOGAN. Yes; I think if they had tried to sell the whole crop in the United States at that time, cotton would have gone down to 2 cents, and so I think that was good judgment. It is not to be held against the French army that the Germans overcame them in the first part of the war, and it is not to be held against the Japanese that they could not overcome that earthquake that they have just had. Neither the French nor the Japanese could meet those situations, and so I think good judgment was displayed in closing the cotton exchanges. Whether they were right or wrong the fact remains that they did the best they could.

I feel like an innocent criminal before this body. I feel like I was brought here in consultation with my advocates, who are going to plead my case before the judge, which is the Congress of the United States. In other words, I believe that the cotton merchants in America and of the world, as centered in the cotton exchanges, are on trial, not before this body, however, because I feel that the Federal Trade Commission want to give us a fair deal—to give the merchants, the traders of the United States, a fair deal. And therefore what I

am saying to you I am saying to you as my advocates and not as my judges.

The cotton exchange, when your communication came to them, called a meeting, and after due consideration and a strict roll call of the nineteen members present, all voted that it was the desire of the Norfolk Cotton Exchange that all grades be tenderable on contracts.

The reason they gave for this was in times past they were left on hand—referring to commission merchants—with cotton which they were absolutely unable to sell. A farmer has given instructions to sell the cotton. The commission merchant could only sell the cotton that was tenderable on contracts. The result was that after a big decline in the market he was absolutely unable to recover from the countryman, for the reason that the countryman said "I told you to sell my cotton and you didn't do it."

Therefore the cotton merchants of Norfolk feel that they should have a place in which they can not only tender their good grades, but also off grades of cotton.

And then the vote came on southern delivery, and thirteen voted against southern delivery points, and six in favor of southern delivery points. I was appointed to represent the group opposed to southern delivery points. The gentleman appointed to represent the group in favor of southern delivery points became converted to my side, and then they appointed another gentlemen to represent those in favor of southern delivery points, and he also became converted, and so he did not come here. I will leave that to the other side.

I say we feel like we are on trial before the Congress of the United States as cotton merchants, and I feel that as merchants we can stand before the whole world and claim that we have always performed our function of the middleman, or the delivery man, and that we have performed that function honestly and fairly on both sides, statements to the contrary notwithstanding, and that the merchant is the proper vehicle of intercourse between the producer and the consumer.

I believe that the merchant in all legislation should be given fair and full consideration, for the simple reason that I do not believe that the producer would ever have sold his cotton outside the narrow limits of his own little State if it had not been for the merchants, who operate over the seas and establish foreign connections and make the home product salable in the whole world.

So I believe when we go before Congress we ought not to be dragged up there as criminals, defending ourselves, but that you should say to Congress, "We have investigated the cotton business, we have investigated the cotton exchanges, and we find the cotton business is conducted on a high level, and we believe those men in the cotton business are fully capable of taking care of the exigencies of the trade;" that at one time the bull is defeated and at another time the bear is defeated; the buyer and seller are constantly in a battle of wits. The advantage, to my mind, is always with the buyer, because as a seller I have to go to the buyer. I have to satisfy a buyer. It is very seldom that the buyer comes to me, because I find he is always waiting for me to come into his office and sell to him.

That is the way it always is. The traveling salesman is on the road. I never heard about a traveling buyer. I think the advantage is always with the buyer, and you can not take it away from him, no matter what legislation you may enact.

Now, if the Federal Trade Commission would go to Congress and say, "We don't see any use of any further legislation connected with the cotton trade"——

The Chairman. I am following you very closely and that sounds good. Would you have made that speech in 1913; would you have come before us if we had been in existence in 1913 and have said, "You Federal Trade Commissioners go up to Congress and say, 'Let the cotton future market alone'"; would you have said that in 1913?

Mr. Hogan. In 1913, before the exchange closed?

The Chairman. No; I say in 1913, would you have made that statement? I think you say, "Yes." All right, according to what you have stated here, you wouldn't say that you would make that statement; and then you would have been mistaken.

Mr. Hogan. Gentlemen, I may be wrong——

The Chairman. I do not think that you get me, probably.

Mr. Hogan. Well, I will answer your question categorically; yes; or I would say to go to Congress and say, "Gentlemen, you have nothing to do with the fact that Mr. Jones had a certain kind of a contract with Mr. Smith; the only time you have anything to do with Mr. Jones is when he falls down on his contract and Mr. Smith goes to the court."

The Chairman. So you are really against the present law; you do not think it is a good law?

Mr. Hogan. I do not believe that the present law has really done any material amount of good, except in the matter of differences of the 10 markets.

The Chairman. Now, that is frank; you do not believe in the present law?

Mr. Hogan. I do not believe in any legislation against business, I believe that gentlemen in business are the same as preachers in politics. [Laughter.]

The Chairman. Would you, then, go to Congress and say we recommend that you repeal the Smith-Lever law?

Mr. Hogan. When that law was passed I would have; but I have gotten so used to acting under the law that all I ask now is that you should not ask for any more legislation. We have adjusted ourselves to conditions, and business will take care of its own affairs.

But leaving that aside, we come to the final point, which is there is going to be some legislation, and we have to get ourselves in line for it. While I, as representing the majority of the members of the cotton exchange of Norfolk, am opposed to southern delivery points, for the reason that I do not believe that all the proponents of that, and all the Congress of the United States and all the markets of the world can ever work out a practical plan on which it can be promoted——

The Chairman (interposing). Mr. Hogan, you talk to fellows down there every few months. What do you tell them?

Mr. Hogan. I beg your pardon.

The Chairman. What do you say to those fellows down there?

Mr. Hogan. I was in a different atmosphere down there. [Laughter.] I was on my own dunghill there, and up here I feel differently.

The CHAIRMAN. Go ahead and give us what you gave them down there.

Mr. HOGAN. There is a bugbear among the people and that bugbear is manipulation. They have hollered manipulation until one is apt to get bughouse on the subject of manipulation. There are some gentlemen around here—I will not call their names, but there are some of them here to-day—who are supposed to be the greatest manipulators that the world has ever known, and if they do what they are supposed to have done they are smarter than the English thought the Germans were in regard to those mythical guns in the war. I always thought if the Germans were as smart as the British were stupid, on the question of putting the machine guns in the Tower of London, I believe it was—well, if these gentlemen that are manipulating this market and buying it for more money to the producer and selling it cheaper to the spinner, if they can manipulate it that way, if they are smart enough to do that, you can never get any legislation to beat them. [Laughter and applause.]

I represent the small merchant in the cotton business. These big fellows—and a lot of them are here—do not need any cotton exchange to protect them. They are able to protect themselves, because they have so much money it does not make any difference. But we have not. We have got to have a cotton exchange to enable us to buy cotton and carry a stock on hand to take care of our customers who want the cotton.

Suppose we buy a hundred bales of cotton. Now I would like to answer some questions that the doctor is going to ask me. [Laughter.]

We are asking for all grades to be tenderable on contracts, for the simple reason that we buy all grades.

Up to this year I suppose half the cotton was basis middling. We bought it from the first of June to the first of October. We did not know what we were going to get, so we would buy, say, a thousand bales of basis middling, as much as we could carry.

One thing I would like to say, and that is cotton is not like eggs, for instance. You can not put cotton down and say each bale is identical. I do *not* [?] believe there is [as] much difference in bales of cotton as there is in human beings. It is one thing on the outside, and, when it comes to cotton, it may be an entirely different thing on the inside of the bale. Atmospheric conditions will change it; it will be changed on the inside. I believe the fact of the matter is you can get three or four grades of cotton out of one bale of cotton.

The CHAIRMAN. An egg will change on the inside, too. [Laughter.]

Mr. HOGAN. Yes; and I know a bale of cotton will change on the inside. I know we found a dead cat in the middle of a bale of cotton once in Norfolk. We buy it basis middling and we don't know what the farmer is going to ship in. Mr. Gordon pointed all that out. If we receive a hundred bales of cotton from a farmer it may have five different grades in it, and we have sold a contract in New York, and we want to shoot that hundred bales up to New York to take care of ourselves, and we are not doing anybody any harm, because they know what they are getting when they buy it.

We have shipped a hundred thousand bales to New York and delivered them on contracts. We can take the hundred bales of cotton and grade that out as one grade, and that will come back three grades from New York. I am not casting any reflection on the Government classifier when I say that either. You can take a hundred bales on this table, and if it is gin cut, at the end of six hours it will fool you to death. You are in a funny position. We are in here now and we are talking, some with one idea and some with another, and we understand one another. Some may believe in southern delivery points and some do not believe in southern delivery points. But I have not heard an argument to-night——

The CHAIRMAN (interposing). You agree with Mr. Clayton, do you not?

Mr. HOGAN. I agree with Mr. Clayton on the fact that it is a merchant's proposition, but I do not mean to say that you should leave the spinner and the producer out. The spinner is supposed to buy cotton from us and not from New York. My Lord, if you would just try to please them you would have to know the men you are dealing with. The sale of cotton to a spinner is as much different as ordinary cotton in Norfolk; the trading with the spinner is as much different as talking Dutch to one man and talking Italian to another man.

The CHAIRMAN. And why is that? That is very interesting.

Mr. HOGAN. For the simple reason that the spinner is narrow. I do not mean that as a reflection on his mentality, but I mean that in this way: Say a mill is using ten thousand bales of cotton a year, it uses ten thousand bales of a certain kind of cotton and does not want any cotton under an inch, or does not want any cotton over an inch. You have to please that man just as much as you have to please your wife. [Laughter.] You can get a new wife, maybe, but when your customer is gone he is gone forever.

The CHAIRMAN. You mean when it comes to deliveries to a spinner, he is a man who is vigilant as to what he is getting, and he wants a certain thing at a certain time.

Mr. HOGAN. For a certain purpose.

The CHAIRMAN. And when you are dealing with him you make him pay for that service, necessarily, and justly so.

Mr. HOGAN. Yes, sir.

The CHAIRMAN. Now, you are contracting that with a future market, where you do not have any of those worries; the fellow is not going to get any cotton and so you don't care what you propose to give him.

Mr. HOGAN. No; it is like buying on the cotton market at home. I might buy five hundred bales of cotton and I might specify that I would not take anything except a certain grade—sometimes I might say that I would not take anything but a certain low grade; but the spinner, as I say, is narrow. He only wants his particular kind that he has specified. He wants that particular type for his own kind of cloth. That is why you can not make a contract with a spinner as you can a contract with the general trade.

We might sell a thousand bales of cotton to Anderson, Clayton, and Fleming. We might sell tham a thousand bales of cotton, and all we would do would be we would sell them a thousand bales of cotton of different grades, and they would accept probably what we would not ship to a mill under the same specification. The Mt. Vernon-Woodbury Mills will not accept anything, for instance, in which the staple is over 15/16ths of an inch.

We are against southern warehouse deliveries, that is what we are up here to tell you, because we believe it would put a tremendous

advantage in the hands of the big dealers in cotton. You asked a while ago the names of the big dealers in cotton.

The CHAIRMAN. Because I did not know.

Mr. HOGAN. It does not make any difference, one year it is one big dealer and another year it is another big dealer. It would give any man in the business with $25,000,000 an advantage over the man in the business with $25,000, because if he wanted to go together with another clique and buy up cotton and scatter it at all these points, I don't think he would manipulate only the current month he would manipulate the entire crop.

The CHAIRMAN. On this big dealer's proposition I merely wanted information. When you speak of the big dealer are you talking about the man who goes into the speculative cotton market, or about the man who actually buys and sells cotton?

Mr. HOGAN. I would say that I am talking about the man who actually buys and sells cotton, because the man who buys cotton outside of his general business as an investment, he is not really a factor except now and then. The big spot man is always a factor in cotton, a man like—well, I won't mention any names, because there is no use, but various men who have from time to time made spectacular deals in cotton, they were merely, sometimes, men in outside business; for instance, a man in outside business will buy a lot of real estate expecting an advance. I never heard of but one man that really sold the market; they all buy. And coming down to that, the ten delivery points in the South, to my mind, that would put a weight on speculation, and if you kill speculation, you are going to kill production, because speculation is as essential to business as exercise is to the human body.

It is not like one group buying from a smaller group, there are as many buyers as there are sellers, and that is always bound to be so, and the cotton exchange functions for both of them. The cotton exchange is not in business to take care of the buyer of cotton or the seller of cotton; it is merely for the meeting of the two, and to say that so and so manipulates the market, it is really silly in a way. It is not impossible to bulge one month or it is not impossible to depress one month, but I believe it would be far more possible with ten delivery points to depress cotton almost below production; if they had that club on the market I believe it would act as a damper on speculation.

You might narrow the matter down so that the mills would simply say, well, we want to depress cotton and we won't buy any for two or three weeks. So then the man who has cotton to sell and wanted to go in and get rid of the cotton and buy food would not have any place to put his cotton at all. A big group of mills could in that way curtail the market, just as they do right now. They will do that now if they think cotton is too high. But if there is no place to trade at all the poor farmer is in a bad fix.

At the present time under this present system, evolved by the best brains in the world, a bale of cotton is equal to money; a farmer can go out and get rid of his cotton any time and go home with the money and buy what he needs. He can take his bale of cotton and go into the store and get what he wants just the same as he could for money. If you eliminate the cotton exchange or if you put a tremendous damper on the cotton exchange, or such a contract on

it that it will cease to function from that time on, cotton is not going to be money.

The CHAIRMAN. Well, sometimes it is not very much money. When it was six cents a pound it did not represent very much money.

Mr. HOGAN. I think cotton has always been money except in periods of depression, these big waves of depression that have swept over the country.

The CHAIRMAN. When that campaign was on about buying a bale there was not very much depression.

Mr. HOGAN. Well, they could not do anything with that buying a bale of cotton; of course that put a fictitious value on cotton. They wanted to buy a bale for $50. Well, all those things ultimately react, any kind of outside interference. I think the cotton market is something like something that has been overphysicked. If you give it any more it is going to work against you.

The CHAIRMAN. You believe that the speculator *and* [in] the cotton market actually does take up the slack, that he provides a market in case a man should fall off, that is, you have said to-day that if the spinners and the buyers of the actual cotton should conclude to lay off the market and thus decrease the demand, that the speculator makes up a buyer and a seller for your market, a legitimate buyer?

Mr. HOGAN. Yes. Theodore Price analyzed that. He said that the supply and demand did more to regulate the price, and the feeling had a lot to do with it. A man naturally has some sentiment about it; he wants to go in and back his judgment in the market.

The CHAIRMAN. You mention eggs; why is it there is not a future market for eggs? Why, if a future market is good for cotton, should it not be good for eggs?

Mr. HOGAN. I don't think you ought to compare eggs and cotton.

The CHAIRMAN. You ought not to belittle the importance of eggs. Eggs are a great big item.

Mr. GLENNY. It is a perishable commodity.

The CHAIRMAN. Well, is that the answer; that eggs are a perishable commodity?

Mr. HOGAN. I don't think it is practical to deal in eggs in that way. You know customs are always recognized and it has always been a custom in the cotton business to deal in this way, and we have gotten used to it, and the customs are absolute laws to us.

The CHAIRMAN. I know they are, but there is some reason other than the question of the perishability. Years ago there was no future market in cotton; 80 years ago there was no future market in wheat or anything that I know of. Now, in the last 80 years there has grown up future markets for certain things, and if it is such a great, grand thing for wheat and cotton, why is not a good thing for some other thing?

Mr. HOGAN. I believe if they would have a future market for eggs and things like that, with proper storage facilities, that the egg market would be far more stable and they would not be selling for 10 cents to-day and 40 cents next week, as they do now, sometimes.

The CHAIRMAN. Then your answer is that the future market takes up the slack there; that is your first answer. Your second answer is that the future trading in a given commodity stabilizes the price of the commodity; is that right?

Mr. HOGAN. Yes, sir.

The CHAIRMAN. Well, that remains to be proven statistically.

Mr. GLENNY. It can be. Thirty years before the Civil War there were more fluctuations than there were thirty years after the war. The establishment of future markets is what stabilized prices. I will say, further than that, that the price of cotton, even though we were not producing any cotton at all, was as high as 50 cents and when you spoke of the days when they had no exchanges, it was exceedingly low, it dropped down to 5 cents.

The CHAIRMAN. It dropped down to 6 cents in 1914.

Mr. GLENNY. It dropped down to 6 cents in 1914, yes. Futures are not bought and sold because anybody invented the scheme, but they are the evolution of the cotton business. It started in Liverpool during the war to safeguard the merchants in Liverpool who were bringing cotton over at uncertain times, and the coupling of the two months in Liverpool was due to the sailing ships which were uncertain of arrival. The telegraph, the telephone, and the steamship did away with the coupling of those months, and it also did away with the uncertainty of the arrival of vessels, just as the Marconi system does to-day. It is not a mere invention, it is an evolution of the contract on account of the necessity of the contract.

Doctor STEVENS. Mr. Hogan, did you ever hear of squeezes in the New York market?

Mr. HOGAN. Surely.

Doctor STEVENS. Do the large dealers or the smaller dealers bring about the squeezes? Who do you think is responsible for the squeezes?

Mr. HOGAN. I can not say. I think the small dealer is more or less responsible for the squeeze. This talk about manipulation and squeezes is to my mind almost silly. I perhaps ought not to designate it as silly, but here is the proposition. If any man overbuys himself or any man oversells himself, he gets in bad; and you can make all the laws in the world, but you can not take care of a congenital idiot. You don't know what he will do when your back is turned. Now, I am not a speculator; none of us are speculators. Suppose I buy 500 bales of cotton and I hedge that cotton in October contracts in New York. Well, if I have done a proper line of business, I have tried to buy that cotton at such a price that I can deliver it in October without a loss, if I don't sell it elsewhere. That is the real idea of hedging.

Doctor STEVENS. Pardon me right there. Then you mean that normally you should be able to buy your spot cotton and hedge it in a future month at a higher price?

Mr. HOGAN. Oh, I won't say normally.

Doctor STEVENS. I mean that is what you try to do.

Mr. HOGAN. That is generally what I try to do.

Doctor STEVENS. Well, how often do you do it?

Mr. HOGAN. We have shipped, I suppose, a couple of hundred thousand bales of cotton to New York on contracts.

Doctor STEVENS. Has it not been true that in a great bulk of cases the future price has been at a discount under the spot price, and have you not paid more for your spots than you could sell your futures for?

Mr. HOGAN. At times I have, of course, because I might go out and buy one even running grade of cotton, or a local condition might arise, and it has arisen, by which a man who is trading in Liverpool can pay more money for the cotton than I can when I am trading with a mill in New England, and the same thing would happen on contracts.

Doctor STEVENS. What I am trying to find out is whether the situation that you stated—that is, that you expected to buy your cotton at a price which would allow you to sell the future and deliver out on it—is a situation which is very customary in the cotton trade, or whether it is what might be called a rather unusual situation?

Mr. HOGAN. Well, in the big crop years I would say you would be able to hedge all the time; but in short crop years all signs fail. But I will say this, that the fact that I can not—and please follow me on this—the fact that I can not buy my cotton and deliver it on contract without a loss does not put me in a position to be squeezed two or three cents a pound, because all I have to do is this. I know if I bought my cotton half a cent above New York that I will lose half a cent if I deliver it, and that is all there is to it.

Doctor STEVENS. Suppose you bought it three cents above New York, instead of half a cent?

Mr. HOGAN. If I bought it three cents, I would need a guardian, that is all. If I go out and deliberately buy cotton that I haven't any place for, I haven't any market for, except New York—well, if I buy that cotton and sell it in New York for one or two or three cents a pound less, then I am supposed to be able to accept that and take that. I don't want the Government to come in or any legislation put in to protect me from doing that; I do that with my eyes wide open. If I buy something that is going begging, there is no market in the world for, I am taking a risk and gambling on that and I am willing to take my medicine if I get whipped.

Doctor STEVENS. Did you ever have a selling hedge in a squeeze[d] month?

Mr. HOGAN. Well, we have been in the business for a long time, and I suppose we may sometimes have gotten in a squeeze[d] month, but we generally have sense enough not to hedge in a current month all the time, unless we are prepared to deliver. If we are not prepared to deliver, we haven't any business to be in the month—when if the buyer called us for the cotton we would be in trouble.

Doctor STEVENS. Then, so far as you are concerned you have no objection at all to squeezes in the New York market?

Mr. HOGAN. Well, the city of Norfolk, generally speaking, has not lost any money by squeezes in the New York market. [Laughter.]

Doctor STEVENS. That is the next question I was about to ask you. Do the Norfolk merchants, as a matter of practice, frequently deliver cotton in New York on squeeze[d] months; is that the common practice of the Norfolk merchants?

Mr. HOGAN. Naturally if New York is the best market, naturally our cotton goes there. It does not go to New York just because the month is squeezed.

Doctor STEVENS. Of course I understand that. That is going into the economic situation that lies behind the squeeze. But what I wanted to get from you was whether you people in Norfolk do regularly make deliveries when the near position is squeezed.

Mr. HOGAN. Yes, sir. Well, when you talk about manipulation and squeezing, there is a whole lot to know what you mean. If we

find there is a whole lot of short interest in the month in New York and those people are not making deliveries, we don't hesitate to make deliveries for them. That is what it amounts to. In other words, if you were in New York and you sold in October, like it was here the other day—the other day October cotton was selling down, I think it started off below December, but anyway gradually October picked up. Well, the people that were short that month deliberately sat there and waited for the mule to kick them. In other words, they waited until it was too late for them to get the cotton anywhere else, and had to buy it back in New York. We put cotton up there in New York to take care of those poor people. [Laughter.]

Doctor STEVENS. Would your statement regarding squeezes be the same if you were a merchant in Dallas instead of being a merchant in Norfolk?

Mr. HOGAN. Yes; absolutely. My position in regard to squeezes has nothing to do with the personal advantage that a squeeze in New York gives us. We really do not want a squeeze to happen, because we would rather sell to our regular customers. But a squeeze is the natural culmination of one man trying to sell to another man something he thinks the other man does not want, and when the other man proves to want it, then he gets left, that is all.

If I sell you 500 bales of cotton and fail to protect myself against it and go on up to the day before delivery, and ask you to let me off with a cent discount, it is not human nature to let you do that.

Doctor STEVENS. Might not that squeeze be the culmination of the buying of a large volume of contracts by a certain individual, which are sold by a large number of individuals whose interests are scattered?

Mr. HOGAN. To tell you the truth, I have never been on the inside of a squeeze and I don't know. I know that Mr. Sully overbought. I don't know who was back of Sully, but anyhow I don't think it is any harm to mention his name, because it is all a matter of history.

Doctor STEVENS. Did I correctly understand you to say that you had not been caught in a squeeze?

Mr. HOGAN. No; I don't think we have ever been caught in a squeeze. We have had cotton hedged probably sometimes in New York and we had to deliver, that there was not any profit in; it may be that a quarter of a cent would cover that.

Doctor STEVENS. Would you say that if you would install a system of southern warehouse deliveries it would stop the squeeze[s] in New York?

Mr. HOGAN. I don't know whether it would or not, because I believe in that event instead of a man selling a thousand bales he would sell a million bales. There is no limit to such people's capacity for getting in wrong.

Doctor STEVENS. Is there any reason why he can not sell a million bales now in New York?

Mr. HOGAN. Sure, he could sell a million bales now, but he is going to flood the market if he does it, he would have to buy it back.

Doctor STEVENS. Why should he want to sell a million bales on southern warehouse delivery any more than he would want to sell a million bales now?

Mr. HOGAN. I don't know why, except, as I have been trying to explain, he is a nut. No group of merchants or big interests, or whatever you call them, can force a million bales of cotton to be sold to them.

Doctor STEVENS. I am not making myself clear. You made the point, if I understood you, that the result of southern warehouse delivery, or one of the results of southern warehouse delivery, would be probable manipulation or squeezes.

Mr. HOGAN. I would not go on record as saying that because I am not profound enough to pass judgment on something that is going to happen in the future; but it is my belief that as manipulation consists as much in depressing the market as it does in advancing the market, if anyone wanted to manipulate the market on the bear side, that they would have a tremendous lever to do it with, if they had ten markets in the South.

Doctor STEVENS. You do not question that they manipulate on the bull side now, do you?

Mr. HOGAN. I do not believe much in manipulation; I mean I believe it is the most overdone and overtalked of thing there is.

Doctor STEVENS. But you referred to manipulation when you spoke of southern warehouse delivery on the bear side. What I am asking you about is the same thing on the bull side at the present time, and when I asked you that question you seemed to evade the issue. When it comes to the bull position you do not like to talk about manipulation or depressing the market, but when you come to a question of southern warehouse delivery you are willing to talk about bear manipulation.

Mr. HOGAN. I hope that anything I say will not be used against me. I told you at the beginning that you could ask more questions than any cotton man could answer.

The CHAIRMAN. I think that that was a fair question.

Mr. HOGAN. I did not say manipulation; I said depressing the market.

The CHAIRMAN. I think this is the question: Would there be as much power to depress the market with southern warehouse deliveries as there is now power to bull the market with New York delivery? I think that is the question—because what is sauce for the goose ought to be sauce for the gander.

Mr. HOGAN. It is my individual opinion, given for what it is worth, and aside from the merits of the question, that southern delivery points would give a greater advantage to the manipulation than the present system gives. In other words, it would give a greater advantage to bear manipulation than the present system gives to bull manipulation.

I am expressing that as an unvarnished opinion from a person that has been unable to study the thing. I am not Elias or any other prophet, and I don't think anybody here can say what the result will be; but all I am asking you is that you gentlemen, as the advocates of the cotton trade before Congress, shall say to Congress, "Don't put in any two-edged sword; in other words, if you don't know enough to straighten it out, you don't know anything at all about the cotton business, or you would be in it." [Laughter and applause.]

The CHAIRMAN. Now, gentlemen, we have had only one speaker here today, really, in favor of the proposition of southern warehouse

delivery. All the rest of the speakers have been consistently against it. Are there any men here from any of the exchanges that would like to speak in behalf of the proposition?

There has not been a strict adherence in the conduct of this hearing, to the commission's expressed desire to confine the speeches or addresses to two men from each exchange. We have had three from New Orleans, I think. Are there some members from the New York Cotton Exchange, except Mr. Clayton, who favor this proposition?

Mr. JENKS. I favor it, but I am a very poor speaker, and would hesitate to get up here and express my views.

The CHAIRMAN. I think we would like to hear you, Mr. Jenks, if you favor it.

Mr. JENKS. Mr. Chairman, if it is desired to ask me questions I think I would be glad to endeavor to answer them; I think I could get along better in that way.

The CHAIRMAN. Can you stand questioning by Dr. Stevens?

Mr. JENKS. Yes, of course I can.

The CHAIRMAN. If you are here to-morrow, Mr. Jenks, I will call on you then. We want to close this session pretty soon, and I will now call on Mr. Durfee.

STATEMENT OF MR. R. N. DURFEE

Mr. DURFEE. Mr. Chairman, my name is Durfee, and I represent the Arkwright Club, the National Association of Cotton Manufacturers, and the Fall River Cotton Manufacturer's Association.

Mr. Chairman and gentlemen, after what Mr. Hogan has said on some of these points, I almost felt as though I had better stayed away. But I am here, and I feel quite strongly on some of these points, and beg to make remarks.

We in the East are longing for the day when the happy phrase of President Harding will come to pass—when there is less government in business and more business in the government. I may say that without any reflection on the commission or any department of the Government.

The CHAIRMAN. Well, how does that apply, would you have the Government take its hands entirely off the cotton market?

Mr. DURFEE. To be perfectly frank, and without any stressing of the point, a great many of the cotton interests to-day would like to have the Agricultural Department lessen their labors by at least 50 per cent. We think that the reports that are issued, which are mere guesses to a certain extent——

The CHAIRMAN (interposing). Are these reports on production?

Mr. DURFEE. Reports on production. We believe that the Government in making their reports should confine itself to ascertainable facts. For instance, no one knows how much it has cost the textile interests from the changes that have taken place between their report as of September 25th and their report as of October 25th. To our minds, and to the minds of a great many of our spinners, it is the most radical about face that ever happened in the cotton reports.

We also believe that last year, or the year before, in which the Government made their estimate on acreage, in which they came out finally and said the reason they had made a mistake was because they

did not have money enough to make a proper record—we believe if they did not have the money that the money should have been furnished or else no report should have been made.

You see we are depending more or less *on* [for] protection *for* [on] the New York futures market. A great many spinners would like to see the New York futures market abolished. I, for one, do not want to see the New York futures market abolished, because I believe it has a great place in the cotton industry. I use it myself. But it does not give me the protection that it should give me. The New York futures market should allow me to bring in not only my raw material but also my finished product. It should allow my customer, if he sees fit to buy my products, to hedge his purchase in the New York market.

I have jotted down a few things here to which I would like to refer. One of them is the question of southern warehouse delivery.

The CHAIRMAN. Before that, I wouldlike to know just how far you would apply your original remark there. You have applied it to the fact that one of the departments of the Government had made some estimates. Would you carry that expression to the point of not having any regulation of the cotton market at all? Do you believe that the present law should stand, [that] the law of 1914, is a good thing or a bad thing?

Mr. DURFEE. Personally, I am not as familiar with the technical features of that law as I should be; but I will say this· That I think that a great many of the cotton interests think that the Government has made a great mistake in mixing in with the New York cotton market, or with cotton.

The CHAIRMAN. But personally you do not care to make an expression, you do not feel competent?

Mr. DURFEE. I do not feel competent to go into the technical details of that question.

Commissioner NUGENT. You stated that a great many of the spinners were of the opinion that the New York futures market should be done away with, but that you entertained a contrary view. Would you say that a majority of the spinners of your acquaintance entertained the idea that the New York futures market should be abolished?

Mr. DURFEE. Well, I should hate to tell you. Before I came down here I consulted three gentlemen who I considered most expert manufacturers in the North, and I should hesitate to tell you what each one of those men said about the New York Cotton Exchange.

The CHAIRMAN. In antagonism to it?

Mr. DURFEE. Entirely so. For that reason I believe that the New York Cotton Exchange has a place, and while I may agree to a certain extent with what these gentlemen say, I think we can work together so we can make that New York Cotton Exchange a safety for the manufacturer. It has got to be a safety for him. He really has got to have some protection. To-day he has no protection. He has but an 80 per cent fire insurance protection.

Commissioner NUGENT. Pardon me, I think either I did not make myself clear or you have not answered my question. Is it your opinion that the majority of spinners of your acquaintance are of the opinion that the New York futures market should be abolished?

Mr. Durfee. I think a great many would like to see it abolished, and some of those people use the New York futures market for their protection.

Commissioner Nugent. Do you know the reason why they would like to see it abolished?

Mr. Durfee. Because it does not protect them as it should, and the fluctuations which are caused by these reports which I have spoken about, and the changes in these reports that have made the spinning business extremely hazardous. We no more than get one report out of the way when, in two weeks, there comes a ginning report and then they start in on a production report. Now, we don't want to have all those reports abolished, but we would like to have them confined to ascertainable facts.

This last report that came out last week has cost the spinners of this country a great deal of money, which they can ill afford to lose at this particular time, when business is as it is to-day.

I don't think there is a southern mill to-day that can make a standard construction and buy cotton on the futures market and come out with anything but a loss—and I am not as familiar with the southern mills as I should be.

The Chairman. You were going on to the subject of southern warehouse deliveries.

Mr. Durfee. Southern deliveries I am very much in favor of, for this reason: I do not question but what every gentleman in this room knows that during the month of October there were only two certificates on the New York Cotton Exchange of 192 bales. Now, if you gentlemen will consider what that means——

Commissioner Nugent. I don't understand exactly what you mean by that.

Mr. Durfee. There were two contracts of certificated cotton on the New York Cotton Exchange consisting of 192 bales. I was told that by a very prominent member of the exchange. Now, you can readily see how easy it would be to execute a corner with only that amount of cotton there in New York.

While I do not want the Government to interfere any further in the cotton business, I don't know but what it would be a good plan, if they are going to confine deliveries to New York, on the New York contract market, that those deliveries should be protected by a certain quantity of cotton available in the New York stock.

Most of the things that have been said to-day have been said in favor of the producer. I think the time has gone by when the producer is going to lose anything from the bearish manipulation of cotton in southern warehouses, which may be selected for delivery points.

What I am afraid of—you can say all you want about Texas—I went into the cotton business when the boll weevil came over the Rio Grande, and I have been in the cotton business ever since, and what I am afraid of is that the South is going to lose their supremacy in the cotton world. I don't think that is any dream on my part, either. I do not want America to lose that supremacy if possible.

The Chairman. To whom will that supremacy pass?

Mr. Durfee. There are a great many places that are open for cotton cultivation. The great country of Australia, if they would allow yellow labor to come in there, could raise enough cotton to furnish the spindles of the world.

I have been connected with the Near East relief for six or seven years, and they are going to raise cotton over there. Of course, it will be in little driblets, you might say; but with the present indications, there is not going to be enough cotton grown in the South to keep our spindles busy this year. And I say that I think cotton is going to advance [to] 35 or 40 cents a bale, because I do not believe even a meager crop raised this year is going to be consumed.

Commissioner Nugent. Do I correctly understand you to say that you, as a New England spinner, would be entirely satisfied to purchase a future contract in New York and accept delivery in some southern warehouse?

Mr. Durfee. Personally, as a New England spinner, I just as soon accept a delivery of cotton in Galveston or New York or New Bedford. I would say this much, that probably if any points are selected they will be the ports for delivery points. Personally, as a spinner, I believe that the city of Memphis should be made a point of delivery. I believe that the city of Dallas should be made a point of delivery. I am sure that there should be some Eastern point outside of New York, some mill point in the East, made a point of delivery, and I say that for this reason: A spinner to-day has to pay, on the basis of to-day's market, at least $16,000 for a hundred bales of cotton; that is the least that he has got to pay.

You can imagine the amount of money involved in what the mills of the East have put into cotton. Now, we, some of us in the North, have of late years succeeded in persuading some of the southern merchants to concentrate some of their cotton in southern warehouses, and that gives us an opportunity of not having to carry such heavy stocks of cotton, and with the way trade has been the last few months a spinner has not been able to sell his product freely, so that he could not sell it. For instance, to-day, I have to sell my product almost on a spot basis in a great many instances.

Now, if I am selling cotton goods for delivery in the immediate future, if that cotton is there when I get an order for goods I can go out and buy the cotton, because it has to be there on the spot to make those goods up, and in that way I take no chances on the fluctuation of the market, because if I am satisfied with the price of the goods and I am satisfied with the price I have to pay for my cotton the consummation is completed.

If there is an eastern point as a delivery point it will not only give the southern merchant an opportunity of selling the spinner for consumption, it will also give him the opportunity, if he sees fit, of selling the New York contract and making that delivery from that same warehouse.

I think that is of great value to the southern man, because it gives him two openings for his cotton, and it is of material assistance to the spinner.

The former speaker referred to the northern spinner as very narrow in his demand for his requirements. I think in a way that is true.

The business has gotten to be so exacting and the margin of profit so small, if there is any margin of profit, that he has to be very careful in his purchases and see what he buys he receives. For instance, I

have been the head of a corporation now for 10 years. I have graded every single bale that has gone into my mill in those 10 years, to say nothing of looking over cotton that I might like to purchase.

I have done that because I wanted to keep my hand in, and I also wanted to know if there was any complaint on the inside of the mill whether those complaints were justified or not.

That is the reason for saying what I have said.

Mind you, I am not coming here on any vote; they have not taken this matter up and voted on it; but they have simply asked me to represent them, and I am giving my individual views, and they must not be considered as the views of the National Association, the Arkwright Club, or the Fall River Cotton Manufacturers' Association. But I think they fairly represent the general opinion.

There is one thing that I will say. If it is deemed advisable to have other delivery points, we do hope that the Department of Economics of the Agricultural Department will not build up a lot of examiners at those points. I think those points can be made [delivery] points, and if it is necessary the cotton can be certificated here in New York or New Orleans by the United States examiners at those points. What we are trying to do is to get rid of some of these nonproductive people here in Washington, in various departments, and we do not want to build up any more of them if we can avoid it.

I think I am faithfully stating the views of the general run of spinners in the East in making that statement.

Now, as to the revision of the present futures contract. That is a rather difficult and technical point, because if it can be done without too great activity on the part of the Government some of us would like to see it done, but we do not want to get this question stirred up again in Congress if we can avoid it.

Personally, I as a spinner—and I think a great many other spinners—would like to have all spinnable grades of cotton eligible for delivery on the New York futures contract. I, myself, as time has passed, have bought a great deal of cotton from the New York futures cotton market, graded *strictly* [strict good] ordinary. I think to-day I would rather take my chances in buying strict [good] ordinary, wide classification, to the present low middling box, as a spinner.

Along these points, I saw three boxes of middling cotton in Fall River recently. We compared them. There would be a very fine profit if you could buy one set of boxes and sell on another; there was such a difference in those three identical boxes. In a way, I don't see how that can be avoided, because I think if I turned over to any examiner the hundred bales of cotton it would be a question whether they would make exactly the same report twice; I think, even if they were most expert, conditions are such that they would necessarily make a variation.

We would like to see the old contract come back. I see no reason why, if a bale of cotton is spinnable, it should not be delivered on the exchange.

Some of us also are opposed to the change from seven-eighths of an inch to an inch, making an inch the standard and seven-eighths at a discount, because we know that drought makes a great difference in the staple of American cotton, and there is a great deal of cotton that is grown and spun that is seven-eighths of an inch, and it can be used.

For that reason they are using much shorter cotton in some lines, which is the reason for the establishment of differentials. I think, however, that that is a matter which is purely technical and which I as a spinner do not feel at all able to talk about. I think that can be worked out by those who are expert and who are familiar with that phase.

I think that using the ten spot market as a basis is entirely satisfactory.

The CHAIRMAN. Do you know anything about it, as a matter of fact—that one feature?

Mr. DURFEE. No; I really know absolutely nothing about it.

The CHAIRMAN. You do not know whether those averages they make out of ten spot markets are really just or not, do you?

Mr. DURFEE. No.

The CHAIRMAN. I have an impression—it came from reading somewhere—that there was a wide difference in those spot markets down there. Now, then, if that is true, a selected choosing, a wide selection of averages, of spot market quotations, the average might be satisfactory and it might not from a mathematical point of view.

Mr. DURFEE. I think I can answer that question. I do not think there is any question but what there is a wide variation. For instance, I bought a hundred bales of cotton yesterday. Not that I wanted to buy it, but the man who had it rather begged me to buy it because he was carrying a lot of cotton, and he was called upon for hedges, and of course some of the banks do not like to loan on cotton which is bought for merchandising or speculative purposes. But if he could say "I sold that to this mill or that mill," the banks would carry it for him.

Well, now, I bought that cotton yesterday, and I know that cotton would have cost me in the Memphis market 200 more points than I paid for it.

The CHAIRMAN. With these wide fluctuations, it is not a very good measuring rod, as a matter of fact, is it?

Mr. DURFEE. These are abnormal times we are going through now.

The question of larger houses has been brought up here, and I would like to say that no matter what would happen the large houses will be the houses that will control in the end. It is only natural that they should, and I think it is really only safe that they should. They manipulate at times, but I think the average large house that is headed by some of the people I know, take them all in all, are in business for the best interests of all concerned, and I think that they can be trusted, and I do not think we need to borrow any uneasiness no matter what you people may do or what the Government may do; I think we are safe in the hands of those large houses, which at times somebody has mentioned here as being a sort of a bugaboo.

The CHAIRMAN. Do you comprehend in that statement an answer to the proposition that has been made here that if we had the southern warehouse delivery big dealers, which was the word used, would manipulate the market bearishly inimically to the producer? You do not subscribe to that?

Mr. DURFEE. I do not subscribe to that at all, and why should not the consumer have something to say about some of these things? Why should it always be the producer?

The CHAIRMAN. Of course, really the producer and the consumer is one and the same person.

Mr. DURFEE. And another statement has been made, if there was not a consumer there would be no producer. The reverse of that is true. If there were no producer, there would be no consumer. What we are really trying to do is to get those two parties together, because we are really dependent upon each other. If the consumer is not successful, the producer is not successful, and if the producer is not successful the consumer is not successful. We never want, as spinners, to see those old times come back in which a spinner could not get a new dollar for an old one.

I, myself, have sold thousands of bales of sea-island cotton for 9 cents a pound, and of course I bought short cotton at very much lower prices.

It is a great question you have come here to solve, and I hope, as the result of this conference, it will be solved, as I am sure it will be, for the best interests of all concerned.

Of course, I do not want to see cotton unduly depressed, and I do not want to see it unduly elevated, because as soon as it gets to a very high point it stops consumption. I was talking to a mill man only the other day. I said, "Why have you got your mills shut up?" He replied, "The fact is that with the high price of labor and high price of cotton I can not sell my product. My employees used to come to work clothed in cotton dresses, and now they come clothed in wool or silk."

I happened to be in the Province of New Brunswick this last summer, and I learned that wool in New Brunswick this summer was selling for 25 cents a pound. Now, when wool is selling for 25 cents a pound, wool is going to be used where cotton was used formerly.

The CHAIRMAN. Now, to-day we have not gone into statistics at all, and I presume we should not, but there is a short crop in America this year, is there not?

Mr. DURFEE. Unquestionably.

The CHAIRMAN. Is the world over short in cotton?

Mr. DURFEE. Oh, yes.

The CHAIRMAN. With a shortage in supply you say there is a curtailment in demand?

Mr. DURFEE. We know we will have to curtail even more than we are curtailing now, and I also know, as well as I know anything, that no matter how short the crop will be, it will not be consumed.

The CHAIRMAN. We will go into next August, the world will go into next August, with still a substantial carriage?

Mr. DURFEE. Of course you can say there are all kinds of statistics and that they all lie. I have seen statistics which show a carry-over for next year larger than the present year. I think that is quite within a possibility. I can take my own town. There has not been over a 60 per cent reduction but that is a tremendous curtailment, and with cotton at these prices, it is practically prohibitive.

Doctor STEVENS. I would like to ask you if you buy any cotton on spinners' call contract?

Mr. DURFEE. No, sir.

Doctor STEVENS. What is the reason that you do not do so?

Mr. DURFEE. Because we can not tell just what we are going to get. I have bought New York contracts when I could see the contract and have an opportunity to buy them; in times past, when I was a broker I bought thousands of bales out of the New York stock that was handled in this way. A New York broker simply bought those contracts and went through them and picked out the cotton which he thought would suit my clients, and sent me the samples, and they bought on those samples.

Doctor STEVENS. Well, I don't make myself clear. I did not mean how much cotton you would take by way of future contracts, [but] how much cotton do you buy on spinners' call?

A VOICE. You mean buyer's call, do you not?

Doctor STEVENS. Well, I said spinner's call.

Mr. DURFEE. Well, that varies. For instance, *that* [take] this present season through which we are now passing. At the time when the market opened, when you could buy cotton at 23 and 24, or lower than that, there was no demand for goods; you could not sell goods even at a loss, and unless the man absolutely owned his plant, he was in charge of other people's money and was taking desperate chances if he bought cotton without a hedge, and at those prices; but in order to run his mill he had to buy cotton to keep his plant running and there was nothing else to do.

We spinners want to keep our mills going, because we want to keep the people of this country contented, [.] *because* [?] *we* [We] all buy on call more or less. I have bought myself on call.

Doctor STEVENS. Did you ever have the experience, when you bought on call, of the price of the future advancing very rapidly and you having to pay a very high price for your cotton?

Mr. DURFEE. Well, I try to be cute enough to get out of those things. I had a little cotton in times past in what has been referred to as a squeeze.

Doctor STEVENS. You refer to the matter of manipulation. Just what do you mean by manipulation in the New York market at the present time?

Mr. DURFEE. I don't think there is any question but what there is manipulation in the New York market, and I think if you have these delivery points in the South that manipulation will never be eliminated, that is impossible, but I think it will be greatly lessened with those points opened in the South.

Doctor STEVENS. Well, Mr. Durfee, just what do you mean by manipulation; do you mean a squeeze in a near position? For instance, suppose I bought some cotton *on Octobers* [in October], sold the Octobers and had not gotten out of them; as Mr. Hogan says, he shipped up cotton from Norfolk to get me out of my October squeeze, and I had to pay him for it.

Mr. DURFEE. That is my idea of a squeeze.

Doctor STEVENS. Do you think that the smaller dealers are ever responsible for these squeezes in New York?

Mr. DURFEE. It is a mere thought on my part, because I am not familiar enough with the New York Exchange or the dealings of the New York Exchange to say; but I should say they never were responsible, and, on the other hand, they may be responsible.

Doctor STEVENS. Are New York contract deliveries as a matter of fact essential to New England spinners?

Mr. DURFEE. Is that question asked for the purpose of consuming contract deliveries?

Doctor STEVENS. I mean suppose you didn't have any New York contracts; in what respect would you suffer thereby?

Mr. DURFEE. Well, we would be absolutely open; we have no protection whatever, we would simply have to take our chances, and it would be rank speculation on our part. Personally, as I said before, I should not want the New York Cotton Exchange abolished, because I think it has a place in the manufacturing world, and I believe that I should object as a spinner. Well, suppose you had to buy good middling cotton. Good middling cotton is only obtainable at certain times, early in the season, for instance, and I may have to buy my whole stock at that time, and I had not sold my goods, and I would not go open on it unless I thought it was very low. I would have to sell the fall cotton against it.

Doctor STEVENS. If you did not have delivery on New York contracts at New York but only at other points, such as you have specified, would that be any serious handicap to New England spinners? Assuming that those delivery points you mention would [not] be disadvantageous to you and New York at the same time was abolished as a delivery point, for example?

Mr. DURFEE. Well, I do not want to see New York abolished as a delivery point, and I should not think it would be.

Doctor STEVENS. Would you tell me why?

Mr. DURFEE. Because the contracts are placed there and I think there should be a stock in New York sufficient to cover the contracts that are sold in New York.

Doctor STEVENS. Well, if you had a system such as you have referred to of, say, deliveries at several points in the South and an eastern point, say New Bedford, would there be any deliveries on contracts at New York unless those deliveries at those points other than New York were made at some differential under New York?

Mr. DURFEE. I have talked to some of the New York men, and that is a question of the differential which is a very complicated question, and it is a question that experts can handle, and I should not attempt to answer a question of that kind, because I do not consider that I am enough versed in those details to answer a question of that kind. I think that has got to be worked out by the exchanges themselves.

Doctor STEVENS. But you would dislike to see *former* [any form of] delivery contract such as you have mentioned installed if it meant the elimination of New York as a delivery point?

Mr. DURFEE. If these other delivery points meant the elimination of New York as a delivery point I should certainly be opposed to those other points as delivery points; but I see no reason why New York should be put out of the running.

I thank you, Mr. Chairman and gentlemen.

The CHAIRMAN. This conference will now adjourn until to-morrow morning at 10 o'clock, if that is satisfactory to this commission and the gentlemen here.

(Thereupon, at 5.20 o'clock p. m., the hearing was adjourned until to-morrow, Wednesday, November 7, 1923, at 10 o'clock a. m.)

WASHINGTON, D. C., *November 7, 1923—10 a. m.*

The commission met pursuant to the taking of adjournment on yesterday.

Present: Commissioners Murdock (chairman), Thompson, Nugent, and Van Fleet.

In addition to those mentioned in yesterday's proceedings there were also present at this hearing the following:

W. J. Adams, Charlotte, N. C., representing the American Cotton Manufacturers' Association.

W. E. Beattie, Greenville, S. C., representing the American Cotton Manufacturers' Association.

F. S. Blanchard, Boston, Mass., representing the National Association of Cotton Manufacturers.

Paul J. Christian, Washington, D. C.

Stuart W. Cramer, Charlotte, N. C., representing the American Cotton Manufacturers' Association.

S. T. Hufford, jr., 60 Beaver Street, New York City, representing the New York Cotton Exchange.

A. F. Johnson, Lynchburg, Va., representing the American Cotton Manufacturers' Association.

C. B. Jones, representing the Associated Press.

J. E. Latham, Greensboro, N. C., representing self and New York Cotton Exchange.

George McFadden, Philadelphia, Pa., representing the New York Cotton Exchange.

C. O. Moser, Dallas, Tex., representing the American Cotton Growers' Exchange.

Fred E. Nelson, Washington, D. C., representing the Bureau of Agricultural Economics.

T. H. Robinson, New York City.

H. C. Slade, Washington, D. C., representing the Bureau of Agricultural Economics.

The CHAIRMAN. Mr. McFadden is here from New York, and I understand he wants to get away, and so we will hear him first. Please state your views and tell what you know about the proposition.

STATEMENT OF GEORGE McFADDEN

Mr. McFADDEN. I am here at the suggestion of the New York Cotton Exchange.

The CHAIRMAN. Are you a native of New York?

Mr. McFADDEN. No; I am a Philadelphia[n].

The CHAIRMAN. You are a Pennsylvanian?

Mr. McFADDEN. Yes; born in Philadelphia.

The CHAIRMAN. Have you been in the cotton business during your mature life?

Mr. McFADDEN. I have been in the cotton business since 1893; the first two years in North Carolina and the next eight years in Texas, as a resident for the nine months of the cotton season. For the other three months I lived at Liverpool and Havre.

The CHAIRMAN. All those years you have been in touch with the cotton trade?

Mr. McFADDEN. Yes; that has been my business.

The CHAIRMAN. We have been discussing three things principally: First, what is the advisability or inadvisability of having southern warehouse deliveries. The second proposition is the wisdom or lack of wisdom in a revision of this present law as to futures, the law of 1914. The third proposition is whether any changes are desirable in the establishment of a method by which we establish differences on days of settlement and the method by which they arrive at a cash quotation in that settlement.

Now, we have been discussing those things in brief, the inadvisability or the advisability of making a change in any one of the three of them, and I would like to hear you on that.

Mr. McFADDEN. Do you ask me to answer that question in the application to the best interests of the cotton trade or the best interests of any particular group in the cotton trade?

The CHAIRMAN. The best interests of the whole shebang—the public and the country.

Mr. McFADDEN. The first question is as to the advisability of the licensing system?

The CHAIRMAN. No; delivery at warehouses in the *conservation*[?] of the future contract.

Mr. McFADDEN. How much detail do you want me to go into?

The CHAIRMAN. You have half an hour.

Mr. McFADDEN. That is more than enough.

This question comes down in the last analysis to whether cotton shall sell at a premium or a discount in New York. Going way back to 1900 and 1910, we usually found, when production was about balanced with consumption, that middling cotton sold at a discount in New York. There was a great deal of complaint and dissatisfaction in the South—they could not tell why middling cotton sold one or two cents higher in the South than in New York.

For one or two years all commodities were low, and then we ran into some short crop years and we found that the immediate position in short crop years sold at a premium, but not at a premium which justified the price; the price was lower relatively than the price of middling cotton itself.

Between 1910 and 1912 there was a great deal of agitation on the question in Washington. Senator Heflin, of Alabama, and Senator Hoke Smith and also Senator Smith, of South Carolina, and the representatives of the farm unions were making vigorous complaints, and Mr. Lever, who was then the chairman of the Committee on Agriculture of the House of Representatives and an expert in cotton, and I believe a man who really knows his subject more thoroughly than any other man in this country, because he has studied it for many years (he was brought up in cotton, he was fair to all concerned, evenly balanced), introduced a bill, which is known as the Lever bill, and that was finally passed and became a law.

The price of January and February contracts reflects the price of cotton in the South, and it ought to do it. The Lever bill was enacted, and certainly since that time it has performed the service for which it was intended; that is, you will find the price of middling cotton in the South and usually New Orleans and New York reacts about to that, and to my mind the Lever bill has been a great benefit. There may be some unimportant evils connected with it, but broadly speaking it has performed the service it was intended to perform.

Now, this suggested modification of permitting cotton to be licensed throughout the South, that being a delivery on contract, we must bear in mind we have two particular interests involved here; we have the producer and we have the merchant.

I do not know whether it is possible or practicable to harmonize those two interests. It seems to me our first consideration must be that of the producer. If you to-day permitted cotton to be licensed and delivered at the various points in the South I think that December contracts or January contracts, instead of selling at a cent a pound over July, might be selling at a cent a pound under July. That would be a difference of about two cents a pound, or a difference of ten dollars a bale.

Commissioner NUGENT. Why do you think that, what reasons have you for thinking that?

Mr. McFADDEN. Because you take this year, and there is no scarcity of cotton—November, December, January, February—irrespective of whether your crop is eight million or fourteen million bales. Its scarcity comes in the last few months if production is not equal to consumption.

Last year we all bought. It was a favorable picking season, and last year, or the year before, the excess grades which the merchant bought consisted of strict good middling, good middling and middling, and that was the grade, strict middling—and the others—was the grade that was delivered on contract.

This year we have had a wet season, and the cotton will be middling and strict low middling, and low middling, and those will be the grades that will be delivered on contracts.

It costs $1.50 to carry cotton. A man who buys cotton and carries it two or three months, finds it becomes an expensive luxury to carry. We assume that he buys and hedges it automatically; in other words, he does not take a speculative view, and there are very few merchants that do.

Consequently, in the last year, if we had a thousand bales of middling to ship, to get that thousand bales we would have to buy two thousand bales, and then we would have a thousand bales of strict middling, if that was what we had to have.

Who pays that? That comes out of the producer. Therefore I am trying to make the point. If you ask me selfishly as a cotton merchant, I know no suggestion which would better my business more than licensing of the cotton in the South. It would be easy then for us to sit around and wait until we could get cotton on a proper basis, and we would hedge it and carry the charges and go out and play golf.

The CHAIRMAN. You are confusing me somewhat in your use of the word license, which is a new word to me.

Mr. McFADDEN. Certification, I should say, I beg your pardon. If we could deliver cotton against New York contracts in the South, certificated business from a cotton merchant's point of view would become almost automatic and would relieve the risk of the business tremendously. I am unqualifiedly for it. But I thought that would be offered from the other side. I feel sure if they were to put into operation that plan next year, and we should run into a large crop, we would have a very large certificated stock, maybe three or four hundred thousand bales, and spot cotton South would be selling a cent

or a cent and a half or two cents over New York contracts, you would ask us at once why we recommended an amendment to the present law, which was so obviously to the advantage of the merchant, and so obviously to the disadvantage of the producer.

The CHAIRMAN. You make your hypothesis there on an overplus crop. What would happen if there was underplus?

Mr. McFADDEN. In the case of underplus, it would have even more effect, because in a year where the production is less than the consumption, the natural consumption, in the mid season, take from October to March, say from December to March, there is more cotton South than is needed. There has to be, because you do not consume 12 million bales in six months, and therefore in a year such as this year, which is a good example, you would have the near position in New York selling, say, 150 points or a cent—some of these gentlemen made it two cents [under], but it certainly would not be selling a cent over July.

Now, the extent to which it does not sell a cent over July would be at the cost of the cotton which the producer gets.

Do I make myself clear? There might be a difference of two cents a pound, $10 a bale. That would be the maximum, because anybody can step in and sell July and go on to sleep and wait for the trade to come to him. There is no risk other than the risk of being called on for a margin. That is when the market goes up. But that is a financial question, because your cotton appreciates correspondingly.

Now, my point is—and it is an important point—that the producer in short crop years is entitled to a very big price for his cotton, or a relatively big price, and the near position should sell at a premium, and any situation which might develop in short crop years where the near position would sell at a discount would be very unfair, it would be very much to the disadvantage of the producer, and I do not believe any legislation is either wise or proper which is for the benefit of the middleman and at the expense of the agriculturalist. It would be shortsighted and could not possibly last.

The CHAIRMAN. While you were absent yesterday several of the men who were heard were against the proposition on southern warehouse deliveries and they promised us that if there was a southern warehouse delivery provision in the law the big interests, whom they refuse to identify—I asked them innocently who they meant and they would not say—would use it to smash the market down South or manipulate the market down South. Now, what about that?

Mr. McFADDEN. I am speaking purely academically, it is one man's guess against another's. But suppose we take the near position and it sells, plus carrying charges, on next July, six months off, nine months off, and, further than that, we will sell plus a moderate banker's commission. Would not that be an attractive proposition for some great banking syndicate to go in, taking three or four hundred thousand bales, standing pat? They can't lose.

It would be far beyond the ability of any cotton merchant, because we are not rich enough; but it would be a very attractive bait to put before some of these interests in New York or Chicago.

The CHAIRMAN. Why is not that same position open to them operating from New York; why could not you do the same thing to-day under the law?

Mr. McFADDEN. Because it would cost them a great deal of money. Suppose you take up cotton in October. Every month that cotton costs so much more. Then, to get 2 or 3 cents appreciation in the market before the stock starts to make anything, the bidding is all against them; it is the worst possible commercial bet. That is why they do not do it.

But when you find premiums on the distant, then you find it is a good investment, like anything else; I say it is a good investment if you undertake the operation, and there is practically no risk of loss.

Doctor STEVENS. I would like to ask you one or two questions. Mr. McFadden, do you believe that on the average the producer would get less for his cotton throughout the year, not merely in the fall but throughout the entire year, if you had southern warehouse deliveries?

Mr. McFADDEN. Unqualifiedly; yes.

Doctor STEVENS. Now, taking the last situation that you described, if there was a premium on the distant months by the full amount of the carrying charge, would not anybody be able to buy spot cotton and make a profit on it?

Mr. McFADDEN. Well, that is getting into a great many technicalities; that is a very broad question. Anybody should exercise his best judgment, and if you buy a commodity, cotton or anything else, and you sell the same commodity six months hence at a premium sufficient to pay carrying charges, you can not lose much money, unless the fellow repudiates his contract.

Doctor STEVENS. I mean this. If you had the situation you described, would it not be possible for anybody to go into the market and buy spot cotton and would not there be an increase in the volume of purchases?

Mr. McFADDEN. Yes; there would be; but not of the most desirable character, because you, right [a] way, introduce into the cotton market outside speculation in spot cotton which it seems to me would be to the disadvantage of the manufacturer. Let me get this clear. Don't put down what I said just then.

Doctor STEVENS. If it is true, the situation you describe where there is a full carrying charge, banker's commission, and so forth, would not there be a big increase in the volume of spots purchased and [futures] sold on the distant *market* [months]?

Mr. McFADDEN. Provided the distant *markets* [months] *were* [showed] full carrying charges.

Doctor STEVENS. Would not the price of spot cotton then go up in response to that buying demand?

Mr. McFADDEN. Only if the distant position went up correspondingly. Otherwise buying would automatically cease.

Doctor STEVENS. The price of spot cotton, then, would advance to the point where there was no longer a carrying charge?

Mr. McFADDEN. No, no. You see it is balanced, it does not make any difference whether the market goes up or down. There is your spot cotton, say ten cents, and there is your hedge, two and a half cents. If spot goes to ten and a quarter, this hedge stands right there, there is nothing doing; it has to go down together, it has got to go up together. You have found a buyer for the corresponding quantity of distant position, the relative difference must be maintained.

Doctor STEVENS. I understand; but if there was an increase in the volume of buying spot cotton the presumption would be that the market would go up.

Mr. MCFADDEN. And if there is a corresponding increase in the volume of the buying of future contracts in the distant position.

The CHAIRMAN. You have gotten me powerfully interested in this proposition, that that situation actually would bring about an increase in the price of spot cotton, regardless of the relative position of the other positions——

Mr. MCFADDEN. No, no.

The CHAIRMAN. Did you not so answer?

Mr. MCFADDEN. No.

The CHAIRMAN. Then, if it did not, how would it work harm to the manufacturer?

Mr. MCFADDEN. It would withdraw that much cotton temporarily from the market which he, this man, may buy as a banker and put it away, and the American manufacturers may want that particular quality, and they lock it up and sell futures against it, and instead of being able to buy at a cent on middling they might have to pay two cents on middling next summer.

The CHAIRMAN. It would deplete available supply and would eventually raise the price?

Mr. MCFADDEN. In relation to contracts it would raise the price, that is the only effect.

The CHAIRMAN. If the spinner was unhedged it would affect him, would it not?

Mr. MCFADDEN. No; that has got nothing whatever to do with it. In other words, suppose in October he could buy that cotton in quantity at a half cent on middling. You see he may be forced by locking up half million bales of that cotton, to pay two cents on that cotton next spring. Of course, I am exaggerating the differences very much. We had better have it within reason of possibility.

Doctor STEVENS. One more question that I would like to ask. Does a premium on the distant month necessarily mean a lower price for spot cotton in the near months, say, December position, than would be the case if there were a discount on the distant months?

Mr. MCFADDEN. Well, I think I replied to that once, and broadly speaking, the broad laws of economics regulate that situation. Where there is a surplus over natural consumption it is only natural that cotton sinks to a price where somebody will buy it and can hedge it without loss.

The middleman takes that off the farmer, as you saw in 1914, and other years of big production; but it is most illogical where the production and consumption are balanced for the immediate to sell at a discount, and the cotton trade shows it ordinarily does not, but with the southern warehouse delivery the effect, in my judgment—of course, others may disagree with me—the effect of that would be not only in years where production and consumption are about balanced, but in years where production is distinctly less than normal consumption, you have immediate selling out at a big discount, which is absolutely illogical and improper. Now, the producer pays that difference, you can not get away from it.

The CHAIRMAN. Do you care to say anything else?

Mr. MCFADDEN. Yes; I think there was one other question you asked me.

One of the great troubles we had when this Lever bill was considered—and I think some of the men from the Southern States were anxious to make the bill even stronger than it is to-day. The fight was to keep it a common sense bill. Mr. Lever was a very common sense man. He weighed the thing and this was a compromise between the radicals and those who wanted to make a contract even tighter than before, so that there would be no trading. I have noticed agitation lately to limit the grades which could be delivered on contracts. Now, it seems to me that [by the] extent to which you limit *trading* [tendering?], to that extent the price of cotton will be affected.

It is very important to have a big, broad market where you can buy or sell in quantity, for example, the Havre market, you have a contract there which represents the value of, say, strictly middling cotton of 28.29 millimeters. The Agricultural Department objects to this definition, but as long as that is their contract we will so describe it. The trading in that market is absolutely spot contract. What is the result? The contract does not mean anything. There is trading there of a thousand or five hundred bales a day. The Frenchmen have killed their contract. Therefore, I fear that if any effort were made to restrict or reduce the grades delivered on this contract, the effect would be that you would have an automatic contraction of trading, which would be very unfortunate.

The CHAIRMAN. Of course, all these things are in degrees, as you and I know. If you had your way about it to-day you would not repeal the Lever Act?

Mr. MCFADDEN. I think it is a most excellent act and it has performed service far beyond what was hoped for.

The CHAIRMAN. All right. But yet the Lever Act did restrict trading, in limiting the number of grades that could be traded in.

Mr. MCFADDEN. Yes.

The CHAIRMAN. Was that good or bad?

Mr. MCFADDEN. I think it was excellent.

The CHAIRMAN. Have we reached a point, then, in your opinion, where any further restriction would be a mistake, or could that be improved?

Mr. MCFADDEN. I say again; no.

The CHAIRMAN. You mean, then, that any further limitation on the grades would be a mistake?

Mr. MCFADDEN. Absolutely, and for this reason: Last year the surplus—when I say surplus I mean the period from October to March, say—the cotton which was delivered on contract—that is a better way to put it—was middling and good middling and strict middling. Now, this year the cotton delivered on contract will probably be middling cotton. You can not tell about the weather conditions, but it is very desirable cotton, and as a matter of fact you find that a great many mills throughout the world ordinarily buy [ing] strict middling cotton are shifting their contract to middling, because at two and a half [cents difference?] it is cheaper to use the middling provided they can use it in the manufacture of their cloth and yarns which they are manufacturing.

The CHAIRMAN. Are you acquainted with the proposition that we hear a good deal about in Washington, about amending that law so

that there shall be a delivery for future contracts of three contiguous grades; do you know about that?

Mr. McFADDEN. That has been discussed.

The CHAIRMAN. What do you think of that?

Mr. McFADDEN. I think it would be most unfortunate.

The CHAIRMAN. Why?

Mr. McFADDEN. Because right away it would restrict your trade. Who is going to sell that? You had better go and sell to the mills. In other words, instead of having trading of 200 or 300 or 400 thousand bales a day in New York, you might drop down to 50 thousand, and then you would have violent fluctuations. What we are trying to do is to keep prices stable. You may have an upward trend or a downward trend, but you do not want the market to go up three cents this week and go down three cents next week, and the more you restrict your trading the more fluctuations there will be.

The CHAIRMAN. No; I tried to get this yesterday and I did not get very far.

Mr. McFADDEN. I beg your pardon, but suppose this year we have a ten and a quarter million crop, as we may in accordance with the Department of Agriculture, and you limit this, restricting the grades, and we suppose that thirty or forty per cent of this comes below middling. Well, that is too much—although I don't know, I think the average grade of this crop would be strict low to middling. Suppose you make middling and strict middling contracts——

The CHAIRMAN. I think you are getting me wrong. I am talking about the delivery of contiguous grades.

Mr. McFADDEN. What do you mean by contiguous?

The CHAIRMAN. Grades that follow in succession anywhere along the line of the ten.

Mr. GLENNY. The question was when a delivery is made, whether that delivery shall be any of the ten grades, but must not be over three of the ten grades.

The CHAIRMAN. That is the thing that is being discussed.

Mr. McFADDEN. Any three of the grades, but they must be contiguous.

Mr. BUTLER. May I ask a question? There could not be any other grades contiguous but strict low middling and middling. If they are going to be contiguous they must be middling and strict low middling, because we would not have an offset if we went to the lowest grade, low middling. We might have middling and good middling. There could be only two deliveries under a contract contiguous.

A VOICE. Oh, no!

Doctor STEVENS. The proposition is simply that the ten deliverable grades, any grades in any volume, may be delivered so long as those delivered conform to the three grades which lie next to one another, any three grades lying next to one another. For instance, taking a hundred bales, 90 bales may be taken from one grade, and five bales from a grade above and five bales from a grade below.

The CHAIRMAN. That is what I tried to say.

Doctor STEVENS. And, furthermore, the number of deliverable grades might conceivably be increased to include two or three more of the present low grades, the same rule to apply with reference to the contiguousness of the delivery. Now, there would be no *confinement* [restriction] on the number of bales to be delivered on any particular grade whatsoever. As I say, you might deliver 90 from one grade and five from a grade below and five from a grade above, or you might deliver 35 on one and 35 on another and 30 on another, so long as they lay next to one another.

The CHAIRMAN. My question to Mr. McFadden was would that restrict trading?

Mr. McFADDEN. Well, there are two questions involved there; one, that the number of grades, if this was adopted, would be increased, so as to add two more lower grades. I can not say whether that would increase trading, but it would be very unfortunate because it would weaken your contract. Any suggestion which weakens this contract I think would be a mistake, because you would have great difficulty in justifying it at some future time.

The CHAIRMAN. I would like to see if I can get this. I don't think I can, but I am going to try to. We know that in a trade the nearer you can keep the conditions under which a buyer and seller operate equal to both of them the more satisfaction you are going to have in trading, rather than if you give either a buyer or seller an undue advantage in a given situation, that is, if you give either an advantage you are going to get the whole atmosphere in which they do business out of plumb. Of course that is true, and here is my question.

Under this present law, and the contracts made under section 5 thereof, is not there an edge in the law in favor of the seller, in the fact that he has so wide a choice of selection of grades to make delivery?

Mr. McFADDEN. Of course the seller is the producer.

The CHAIRMAN. Oh, no; not in future contracts.

Mr. McFADDEN. No; but the first seller is the producer. Now, you have to find a market for this cotton. So in the last analysis it comes right back to him.

The CHAIRMAN. Well, does it?

Mr. McFADDEN. Certainly.

The CHAIRMAN. You and I talk facilely about future contracts, and spot sales. Part of the time I follow you, sometimes I do not, because my mind is not as facile as yours on cotton; but when the farmer sells cotton he does not use a future contract, he sells spot. But you are dealing with a future contract.

Mr. McFADDEN. And whatever my facilities are, it comes right back on the farmer.

The CHAIRMAN. Well, does it?

Mr. McFADDEN. Well, certainly, sure, Everything I buy I must hedge automatically or I won't live long. The history of the cotton business shows that the survival of us cotton merchants is usually a matter of twenty years. The reason for that is that sooner or later we get tempted.

The CHAIRMAN. And so now your answer is—and I think this is very important, just how you answer it—your answer is that if there exists an advantage in the future contract as provided for under section 5 of the present law, if there is an advantage there to the seller, dealing in a future contract, it reacts to the advantage of the farmer who sells spot?

Mr. McFADDEN. I will answer that in another way.

The CHAIRMAN. I wish you would answer it.

Mr. MCFADDEN. I will answer it in a concrete way. The contract was strengthened, the Lever contract was drafted with a view of protecting the producer, as a result of continuous agitation. I think it has done that. If there is any modification of that contract, in any way, shape or form, I think it would be very unfortunate, particularly at the present time I think it would weaken that contract which would be very unfortunate.

I also repeat that it would be very unwise to *straighten* [strengthen] it for the reason that you can carry anything too far. These things, used in the last analysis, come down to common sense. You may kill the dog, or may kill the goose that lays the golden egg.

I don't know whether I have answered your question but I have tried sincerely to answer it.

The CHAIRMAN. Do you intend your answer to embody practically this idea—because I do want an answer to that question, and I would like to have it yes or not——

Mr. MCFADDEN. No; I am not going to evade it.

The CHAIRMAN. Not at all, but let us see if you can answer this.

Mr. MCFADDEN. I will try to.

The CHAIRMAN. Under the present procedure, as to future trading, under section 5, if there is an advantage acruing to the seller by reason——

Mr. MCFADDEN (interrupting). May I ask who is the seller?

The CHAIRMAN. I am talking now of the man dealing in a future contract.

Mr. MCFADDEN. I am the seller or the merchant is the seller.

The CHAIRMAN. All right. If there is an advantage coming to him by reason of the fact that he has the selection of ten grades in making delivery, if that is an advantage now to him does that advantage accrue to the farm producer, the cotton grower, who is not dealing in futures?

Mr. MCFADDEN. Unquestionably so, because the extent to which you limit your contract, to that extent do you throw out a percentage of this production or defranchise, if you want to, and put it down to where there is no official quotation for it, and it is put out [of line?] in price, that is a great complaint.

Doctor STEVENS. Would it be of any advantage to the farmer to increase the number of deliverable grades?

Mr. MCFADDEN. No; I think you had better ask that question of the manufacturers here. They can answer that question better than I can. What they call good merchant[able] cotton, it is generally considered, the reports show that—the reports of 1907—and other investigations of that kind—that cotton from strict, good middling down to whatever the lowest grade that is deliverable is, low middling perhaps, is about as wide as it should be. Suppose we had a 14-million-bales year. When you have a big crop year you have a very large supply of low grade cotton, and that cotton could formerly be delivered on contract, and now that is not permitted—and I think wisely. But where you have a very large quantity of low middling, such as this year, if you prevent that cotton from being delivered on contract it would be a great hardship to the farmer.

Doctor STEVENS. Are you under the impression that if southern warehouse delivery was put into effect, that it would require any legislation to do it?

Mr. MCFADDEN. That is a legal question that I can not answer. You ought to ask somebody else that question.

Doctor STEVENS. Would your attitude be in any way affected by the question of whether it was necessary to use legislation or whether this contract could be put into effect or, rather, whether southern warehouse delivery could be put into effect by the New York Cotton Exchange without any legislation?

Mr. MCFADDEN. May I speak to Mr. Cone a minute?

The CHAIRMAN. Mr. McFadden's time has expired.

Mr. MCFADDEN. I think you had better ask Mr. Cone that question, because he can answer better than I can. There are very grave legal objections to the suggestion, as I understand it, but I am not qualified to answer the question.

The CHAIRMAN. Your time has expired and we thank you. Are there some of the gentlemen here now from the cooperative associations who were not here when this meeting convened?

Mr. HOWARD. I have come in since the meeting opened.

The CHAIRMAN. We will be glad to hear you, Mr. Howard.

STATEMENT OF MR. WILLIAM M. HOWARD, REPRESENTING THE AUGUSTA COTTON EXCHANGE

Mr. HOWARD. Mr. Chairman and gentlemen, in the consideration of any one of the three questions that have propounded, it might help matters if we recur a little bit to some of the primary principles that underlie these questions.

You can not consider the economic principles referring to the commodity of cotton any differently from those affecting any other commodity that is of world wide consumption and where the production of it is greater in any given country than that country's power to absorb its own production.

In the case of cotton, in any normal crop year, the United States has produced twice as much at least as it has been able to consume for its own population. That, as a fact, has been so long a fact that the balance of the cotton-consuming world not only comes to recognize it as a fact, but counts on it as a fact and to order its own economical conditions in relation to cotton with a view to that fact.

We are therefore not at liberty in dealing with the principles that underlie cotton production, cotton distribution, to rely solely on domestic conditions, but must take into account the entire cotton-consuming world.

There is to my mind a certain amount of confusion growing out of the consideration of the sale of spot cotton as a transaction, a bargain and sale of a given commodity, and the dealing in a mere symbol of that commodity.

We have here two conditions; we have the commodity itself and the symbol of the commodity. For years and years the habit of dealing in the symbol was, by the laws of the different States, more or less either technical or dangerous. The symbol being merely the shadow of the substance, could have no commercial or economic existence except as customs of trade, and tolerated customs of trade, endowed it with such value.

The Lever bill was the first legitimating of this shadow of future contracts, which was the shadow of the substance, and converted it

from a mere shadow of doubtful legality into a recognized legal substance. It became, in other words, the satellite of the thing itself—cotton being the thing itself. But it could have no existence except in relation to the thing itself.

It may revolve, as satellites usually do, around the primary planet with more or less aberration of orbit, more or less understood and explained by the people who deal with it and are familiar with its operation, but at least there must be a definite relation between the satellite and its planet.

Now, the world was not concerned, the American Congress was not concerned, with legislating substance into the shadow unless it had some advantageous result as to the people who produced the substantive thing; and as the result you have the Lever bill.

The Lever bill contemplated preserving a sane relation between cotton as a substance and the fruit of the labor of a large portion of the population of our country whose advantage and benefit was looked to with prudence and proper solicitude. It was intended in legitimating future contracts to maintain some substantial relation between the two.

To whatever extent in actual practice the shadow outgrows the substance and obscures it, or by a preponderance of influence, injuriously *affected* [affects it], to that extent does the Lever bill in its practical operation, or as it is practiced—I do not say the legitimate effect of the Lever bill—to that extent does it defeat its purpose and bring the disappointment which agitates and renews the identical questions which are here for consideration and under review.

It is the part of wisdom and prudence, therefore, to carry out in practice, in the utmost good faith, whatever just relation can be maintained between the future contract and the actual condition of sale of spot cotton.

When you come to look at the two things in that relation, it must have been clear to the congressional mind and it must have carried satisfaction to the farmer that there was a benefit to be derived by the farmer in the legitimate use of future contracts. Otherwise there would have been no quid pro quo, there would have been no inducement by which Congress would have acted in the interest of one class either to no advantage or to the possible disadvantage of the other class.

That brings up the question as to what was in contemplation as the possible benefits to the farmer by legitimating future contracts, permitting the dealing in the shadow in its relation to the substance. The opinion has been expressed here—and on that subject I desire to express this opinion—that legitimately pursued there cannot be otherwise than a benefit to the farmer, the producer of cotton, in the legitimate and proper use of the future contracts, due to the fact, which finds its justification in sound economics, that the cotton farmer of America produces more cotton than America can consume, that his surplus goes into the market and consumption of the world, and it is *not* [now] out of his power, therefore, to regulate and control according to the domestic need alone the price of his commodity.

With world wide conditions changing as they do in very many ways, and with the large surplus to be disposed of out of his own country, the facility with which that may be done, the certainty

with which that may be done, becomes vital in its reaction on the price of the commodity in the farmer's hands; and if there are not currents, and active currents, that are globe circling, there will be stagnation. It is a matter of little consequence when we consider the level of the water in the Great Lakes as to what the currents are, because the Great Lakes are circumscribed by their own territorial limits and they are not related to the great ocean currents. And that would be true if cotton were produced in certain quantities in the United States, and the United States could consume all of its own supply. But when you produce more than you can consume you have rushed this great commodity into the great ocean currents, the globe currents of the world's demand and consumption of this particular product.

There must, therefore, be that stimulation in circulation that will keep this market alive, and in keeping this market alive keep its value within its true relation to production and consumption.

I think it may be illustrated by a simple allusion, drawn from the ocean currents themselves: That if there were no trading in cotton, in cotton futures, answerable to the conditions of the world with respect to that commodity, you would have a degree of stagnation that the great oceans meet in the Sargossa Sea at the Equator, where all ocean currents cease and stagnation is the condition.

In that sense, then, speaking for this particular institution, the Augusta Cotton Exchange, we unhesitatingly say that a legitimate and sound dealing in the futures contracts, such as is contemplated and provided for here, stimulates, and beneficially stimulates the activity of the cotton market.

Another matter is to be taken into account. It grows out of the nature of cotton itself, and it is a commodity that when properly *taxed*, [packed] baled, stored, and kept in good condition, may be in good condition not only for months but for years. Considering the agricultural products, it is not essentially a perishable product when properly cared for, and if it is to be *paid* [put] out into the channels of consumption without any stimulation to its flow, the consumer will take it only as he needs it, and instead of having a provision, as we have in the South and in the West on the farms, of corn crib and smoke house supply, you will have the bad process of the city. In other words, the factory will take it only as it needs it, and it will be left in the hands of the farmer, to be paid out as the demand calls for it, a hand-to-mouth proposition. That is possible because it is not a perishable commodity in and of itself.

Now, if that condition were to arise, what would you have? You would have the farmer carrying the consequences of a surplus commodity beyond his own power of consumption or the power of his country to consume, and the consumer taking it at his own price. Not theory alone, that conclusion, because the direct effect of the breaking out of the war in 1914 was to throw cotton from some 12 or 14 cents down to 6 cents a pound, and for no other reason except that the surplus of that crop could not be disposed of beyond the shores of the United States, and the farmer had to keep it. The merchants did not want it. The American factories understood that they had an unlimited supply, and that they could buy as they saw fit and not put themselves to the expense or hazard of storing it against the day of need.

That, I say, illustrates the effect of a stagnant market in a commodity like this and justifies the legitimate use of whatever stimulant may be derived from these contract futures.

Now, what would be the legitimate use of the contract futures? Congress, in the Lever Act, has undertaken to fix that limitation. It had put in new provisions one five, and one ten. Ten seems not to be materially under attack. Five is a storm center. Ten has not been under attack, because it has been unnecessary that it should be so. Ten relates to specific contract of purchase and sale. Practically so, for the reason that to buy a hundred bales of a given grade, or of specified grades, at a given price, no matter when delivery is to be made, it being an actual transaction, the relation to future contracts to that actual sale is an immaterial matter. Just as cotton is sold, practically the entire crop is sold, from year to year, at home and abroad, on actual sales and actual sales conditions, and no matter to what extent either the merchant or the manufacturer may avail himself of futures as a matter of hedge, the actual disposition of the actual cotton is on the basis of actual sales as the law contemplates actual sale, and is not dependent on the future as it is related to it.

Notwithstanding the reaction of the future contract may tend to fix the price of the actual sale, either to depress it or advance it, they are separate and distinct transactions and kept separate and distinct.

Now go, if you please, from that to section 5, and what have we? We have there an arrangement that is intended to vitalize and make practicable sales of future contract, and that is the gist of this entire matter. It is as to whether or not provision of law has been properly carried out or can be improved.

I see no reason why any producer of cotton or any consumer of cotton should find any harm to himself in the legitimate use of the future contract. It is nothing more than insurance. It is nothing more than a guaranty or a limit put on a possibility of loss. We are insuring everything nowadays. The American people have committed themselves to the business of insurance against loss. We insure lives and we insure houses; we insure even the rents of houses. Industrial concerns are insuring themselves against liability to their employees. In every conceivable way insurance is being adopted and employed. You may call it, in the case of insurance, by the old name, and its ordinary understanding, insurance; but cotton hedging is, really, insuring. There is only a difference in the principle due to the changing of specifications and the different conditions under which the policy may mature and ripen, as is true in the two different classes. But it is insurance, and used as insurance, and is as legitimate as any other form of insurance, and is inseparable from the American spirit and the American practice, with the enormous power of production and with the tendency to do business by both individuals and corporations on fast schedules—a scale so fast that you may be rich to-day and poor to-morrow—and that hazard is to be provided against by any recognized and legitimate method that will avoid that evil.

So that there is no economic hostility between actual cotton sales and the future contracts. The question that comes up, therefore, is this: Is provision No. 5 satisfactory?

There are those who say that it is, and there are those who say that it is not; and the problem here, invited by the resolution of the Senate, is as to whether after investigation any possible recommendation can be made for its alteration or change.

Mr. Reed said a truthful thing when he said that whatever got itself crystallized into law by act of Congress had back of it the will of the great American people. And when the Lever Act became the law of the land you had gone far and accomplished much and had established that by the will of the American people, particularly those engaged in this great industry, that was legitimate and that was possible. Now, wisdom suggests that you so criticize this law and so recommend, [if ?] it is necessary to recommend, its amendment so as to save all that can be saved that is useful and profitable and destroy little in the process.

Two questions are raised there: Shall you change the range of the classifications or, in addition to that, shall you enlarge the scope of the points of delivery?

As I remember the act and the regulations of the Department of Agriculture in comparison with the act, it is to-day absolutely within the power of the Secretary of Agriculture to enlarge the number of places of delivery; but if that is not within his power, it would require an amendment by an affirmative act of Congress.

I assume that it is within his power, because the statute does not limit the points of delivery to New York and to New Orleans. That is, by regulation of the Secretary; and if the Secretary can designate New York and New Orleans, the Secretary can enlarge the number of places of delivery.

The question is, is it desirable? Is it desirable even to contract the *base* [basis?] of classification or to expand the base of classification?

First, as to the basis of classification, that basis seems to have been arrived at out of the wisdom of the people actually engaged in the business of marketing cotton, and it has been adopted as the basis of adjustment of these future contracts. It represents, as these gentlemen have said, this spread between the extreme limits of merchantable cotton. There is no more reason why the fringes of the cotton, whether above the highest standard or below the lowest standard, should not be cut out of it, where the tendency of the fringe would be to reduce the value of the whole, than there is in the sheep grower, who skirts his fleece. He skirts the fleece to rid it of the diluting effect of the bellies, the butts, the tags, and leaves the fleece to its natural use as the measure of its value. The bellies, butts, tags, the tinges of the lowest order, and those highest qualities of the cotton that are not within this range have their uses, but in a limited quantity; limited in use, but nevertheless have their market. And, as has been often said in this hearing, it is economic folly to bring the price of 80 per cent of the merchantable part of the crop down to the possible diminution of 20 per cent represented by the two fringes. I should think, therefore, that the argument answers itself. These gentlemen have said that these grades blend themselves one into another. Actually, no doubt, they do. It is sometimes found in the eye of the classifier. There are reasons for that. But practically it seems to have been born of the judgment of the practical experience of the men dealing with it. Therefore that question, as

far as I represent the opinion of the Augusta Cotton Exchange, is one that ought not to be modified.

Now, go to the next question, should there be delivery in other places besides New York and New Orleans? We think yes, and we think it for these reasons. In the first place, the selection of New York and New Orleans, quite properly, is arbitrary, in the sense that it was within the power of the Department of Agriculture to have done it or not to have done it. It is perfectly plain that it was done for different reasons with respect to each locality. The selection of New Orleans might well have been placed by the Department of Agriculture on the ground that it carried a large supply of spot cotton. And for the very opposite reason, that New York did not carry any very large mixed supply of spot cotton and was not even regarded as a spot cotton market.

So that the conclusion and the choice of the Secretary of Agriculture clearly did not turn on the same considerations as to the two points. But New York is the center of the world, financially, and in many ways, and we are all proud of it. I very much doubt if the extremities of commercial American life would have the vitality about them that would enable them to engage in a day's march in a commercial army if it was not for the great energizing power of the ganglia of New York. But if there was any particular virtue in New York not being a spot market, and if the selection of it was indicated by that fact, and therefore excluded the selection of any other places, why put into the contract that it could be discharged, any contract, in New York?

Now, that is the life of the contract. The power to deliver bodily takes that contract out of the region of a purely gambling contract and puts it on the basis of a just, justifiable, commercial transaction.

Until that provision was put in that contract, Congress rather sought to tax the principle out of existence, and said it could not legitimately exist. If you put into it that it is to be discharged or may be discharged in an actual delivery of cotton, now, if the vitality of that contract depends at last on actual delivery, why, as the contract is as universal as the American cotton, I mean United States of American cotton, and the contract goes in every part of the United States, why isn't it just as vital that that deliverable quality shall be made in one part of the country as another, and not in one to the exclusion of another?

If only the actual supply of cotton in New York subject to delivery on these contracts, and the potential supply of cotton in New Orleans subject to delivery on these contracts, shall constitute the supply of redeemable medium, then the balance of the cotton in the United States, except that that may come from Norfolk, which is within 48 hours of the point of delivery, the balance of the cotton in the United States is as if it were not.

And if it is as if it were not, then manifestly you have limited the redemption power of these cotton certificates to the available supply of actual cotton in New Orleans and New York.

Now, we have something in our history that will illustrate that. You remember when we undertook to resume specie payments, you remember the gold and silver fight of 1896, when the question of the greenbacks in circulation was discussed, when the question of gold in circulation, and when the question of bimetalism was brought forward, it was argued and insisted that in order to put value into these mere tokens of money there should be an actual coin and a supply of actual metal adequate to put life and value into it.

Well, some of us fought about that. But that is another story.

I have called to mind an economic condition. Now, my proposition is that these cotton contracts, futures, are tokens. They are symbols, they are not the actual cotton, and the value of them is to be maintained by the proportion between them and the actual cotton that they represent as symbols and tokens.

So if we limit the available supply of actual cotton for the support of these symbols and tokens to that that may be in New York, not a spot market, plus the available supply in New Orleans, you have taken away the metallic base of your token of currency, with the result that you have depreciated it.

Now, as to the farmer, and when he is helped and when he is hurt. I am old enough to be able to observe this with respect to him. That whoever tells him the plainest truth, either morally or economically, and tells it to him honestly, unselfishly, and without malice, is his best and greatest friend, as long as economic truth prevails and sways the world.

You can not have your pie and eat it too. The farmer can not enjoy a maximum price for his commodity and let every intermediary in the process of its use and distribution suffer the consequences of the commercial or financial disadvantage. He can not expect the tide to rise so high on his shore as to float his bark and leave every other commercial bark stranded. And whoever is unwilling to tell him that is not his friend, nor is he the friend of any true reform in any substantial economic condition.

I believe I have consumed my time, and I thank you.

The CHAIRMAN. We thank you.

We will next hear from Mr. Ellison.

Mr. ELLISON. Thank you, Mr. Chairman, but I believe I have nothing to say at this time.

The CHAIRMAN. We will hear from Mr. C. B. Howard.

STATEMENT OF MR. C. B. HOWARD, GENERAL SALES MANAGER OF THE AMERICAN COTTON GROWERS' EXCHANGE, INCORPORATED, ATLANTA, GEORGIA

The CHAIRMAN. You have stated to the reporter that you are general sales manager of the American Cotton Growers' Exchange (Inc.). Just what does that comprehend, sales manager of that organization, what do you do?

Mr. HOWARD. I am the general sales manager for 12 of the States which are organized for cooperative selling of cotton.

The CHAIRMAN. That is, producers, who are in organizations and who are united in a cooperative association for the purpose of selling cotton, that is the actual cotton?

Mr. HOWARD. The actual cotton.

The CHAIRMAN. Folks who have use for it, is that right?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. And you are their sales manager?

Mr. HOWARD. These 12 States which are a unit have an overhead organization, which they call the American Cotton Growers Exchange, through which they all operate.

I will sell cotton for North Carolina or Texas or Arizona or Georgia, and so on.

The CHAIRMAN. Now, give me an idea of that because it will help me a lot if you will. You operate in an office at a desk. Is that right?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. Do the orders that come to you come by wire, usually? I am trying to visualize it.

Mr. HOWARD. My office being a clearing house office for sales for all of these States, you might say, and having salaried men in Liverpool, Bremen, Havre, Boston, Carolina centers, and connections with merchants or brokers in practically all other cotton markets of the world, great cotton-buying centers.

If any cotton for Texas or for Georgia which is sold in New England or across the water, goes through my office, it is to coordinate the selling activities of these 12 States, in order that the 12 States will, so far as it is possible to avoid it, not compete with each other in the sale of the cotton that is delivered them by their membership.

The CHAIRMAN. I am trying to get at exactly what you do. I have a fair idea of what the men up in New York do. They are trading in symbols, except on delivery months. I know what the New Orleans crowd does. Now, I am trying to get just what happens. You are at the center of the demand and the supply. You must get orders for cotton from prospective purchasers. You must have knowledge of where cotton can be found—a supply for sale. Is that right?

Mr. HOWARD. Yes.

The CHAIRMAN. I am trying to figure out about this. You are sitting somewhere at a desk with a battery of stenographers and agents in various parts of the world. Now, does that knowledge of where cotton can be had, does that information come by wire or mail, or how does it come to you?

Mr. HOWARD. By mail, by wire, by telephone, by cablegram.

The CHAIRMAN. That is right. Now, you have knowledge as to where there is available cotton, and you also get orders by wire and otherwise for cotton.

Mr. HOWARD. Exactly.

The CHAIRMAN. It is your duty as sales manager to bring buyer and seller together at a price and to ship the actual cotton to the purchaser; is that right?

Mr. HOWARD. Precisely.

The CHAIRMAN. In your office do you have a tab or a blackboard or something which shows you what the future market is doing?

Mr. HOWARD. I have a ticker.

The CHAIRMAN. And you watch that market?

Mr. HOWARD. Very closely.

The CHAIRMAN. Do you go on the market and hedge?

Mr. HOWARD. No.

The CHAIRMAN. Do you deal in future contracts at all?

Mr. HOWARD. No, sir.

The CHAIRMAN. So when you are talking about sales of cotton, you are talking sales of the actual stuff.

Mr. HOWARD. I am talking about the bales from the farmers' wagons, the farmer who is our member, and selling it to a cotton

merchant here or a southern mill or a buyer in New England or across the water.

This hearing, Mr. Chairman, while there were three main points on the agenda, I understand it to be a very broad one.

The CHAIRMAN. Oh, yes; you do not have to confine yourself to those points.

Mr. HOWARD. And the object is really to do something for the improvement of the cotton trade, which is a very broad subject.

Incidentally, I have been a cotton merchant all my life. I have been a member of the New Orleans, New York, and Liverpool exchanges, and am familiar with all these questions that have been brought up here, which have been before the Congress and the cotton trade for many years.

I am in favor of a very broad market. Cotton is a world's commodity. American cotton is sold not only here but in China, Japan, and everywhere.

I am inclined to favor delivery of cotton at southern points, against contracts, New York or New Orleans contracts. I favor the present grades, which are deliverable upon contracts, and am inclined to favor that remaining without any change.

I am also inclined to favor the present method of reaching differences between grades, which is now in effect as applying to New York contract deliveries.

In the matter, first, of southern deliveries, it has been stated here that that would give an opportunity of depressing the market and would result in so little business that it would close up the New York Exchange. Well I think that is a great exaggeration. I am not looking at this thing at all from any selfish viewpoint as it affects the New York Exchange or the New Orleans Exchange, but as the broad idea of the point of view to the cotton trade as a whole, the producers, merchants, and the spinners; and I think that a broad and a free market is advantageous to all.

As a representative of the cotton growers, if I thought that delivery in the South would depress the market, I would be inclined naturally to oppose it. I do not see that it has put the New Orleans market out of business. Cotton on New Orleans contract is deliverable at New Orleans, which is a southern point, which is a funnel through which cotton flows, and they generally have there, as stated yesterday, several hundred thousand bales of cotton in store, and if cotton is sold for future delivery on the New Orleans contract, it would be a very easy matter to tender all the cotton on contracts in New Orleans that anybody wished to tender.

If the same were applied to the New York Exchange I don't think it would have any special effect more than is now the case in New Orleans.

I would make cotton deliverable on New York contract in New Orleans, the same as is done on New Orleans contracts now, make it deliverable in Houston or Dallas for the West, in Memphis and St. Louis for the central belt, and in Savannah and Atlanta for the eastern belt. At the present time, delivered in New York, it to a certain extent is an artificial contract. Everyone knows, as a matter of fact, that New York is not a spot market. It was formerly, when there were no mills in the South, for eastern mills and foreign mills, and New York was the financial center, and there was no money in

the South to carry cotton. Cotton was then shipped to New York and sold from there to New England mills.

Changed conditions have changed that and now New York is not a spot cotton market. Cotton sold to New England mills is shipped direct from southern points. Cotton sold to England and the Continent is shipped direct from southern points, except more or less that goes by New York; but most of the cotton that goes into store into New York is forced there to protect the contract market, and in nearly all cases it is forced there at a loss to the seller.

It is, as I say, an artificial contract under present conditions. Take October just past. There were only two hundred bales of certificated cotton in the New York warehouse. Anyone who desired to do so could have squeezed October to unknown heights, except for possibly a small amount of cotton that could have reached there from a limited territory.

But it was stated here yesterday that years ago Brown and Hayne took up 800,000 bales in New York. I gave them some of it. But it was an artificial thing. I made money on it. I bought the cotton in the South and rushed it up there by special train and steamer. I have delivered cotton on New York contracts, I have taken it up there, I have taken it up there on New Orleans contracts. But whenever I did it was an abnormal situation, and we wish to get away from abnormalities in the cotton business as far as possible.

The CHAIRMAN. Your idea is that that would add to an artificial condition, because that is not a perfectly natural condition in New York, New York does not grade any cotton, the mills are not there; about all that New York has for cotton is it has got available money, modified by the proximity of Norfolk, Virginia. [Laughter.]

Mr. HOWARD. I believe Mr. Hogan said yesterday that if the men knew much about cotton, they would all be in the cotton business. I presume he meant at Norfolk.

The cotton-future contract, as I see it, is essentially a merchant's contract. It was never intended and should not be intended and never will be a spinner's contract. It is for hedge purposes, and I scarcely see at the present time, the way cotton business and spinning business has developed in all these years, how the cotton trade generally could get along without the insurance and safety of the cotton-contracts market.

I scarcely see how a spinner who sells his goods for three and six months ahead and wishes to buy cotton to cover could buy that cotton from a merchant, unless the merchant had protection through his hedges, which requires a contract market.

It must be a merchant's contract for merchants to hedge it. A spinner can never get the delivery in a market of that kind of the particular cotton he needs to make a certain quality of goods. He must have cotton of not only a certain grade——

The CHAIRMAN. Why could he not do all that under section 10?

Mr. HOWARD. Because that will never be used. He could do it if anybody would sell it to him; but instead of selling him for delivery under section 10, delivered in New York, a spinner would buy it direct from a merchant in New Hampshire or Lowell, Mass., or Fall River, and get it cheaper than he would going through the expense of New York certification and extra freight to New York and extra freight out.

But if the contract were narrowed too much it would do away with its value for hedge purposes, and that is its essential quality.

The CHAIRMAN. A hedge is insurance. Who furnishes the money for the insurance?

That is a rather loose use of the word insurance, when you talk about hedges, but everybody uses it, so let us find out. You evidently believe it is insurance. Now, who furnishes the money to pay losses—the sucker?

Mr. HOWARD. There is a very narrow margin of difference at times between a speculator and an investor. A man goes out in a real estate development and buys a lot of vacant property, expecting the town to build out that way, and he holds it and he may make a large profit, or he may have a loss. He is an investor, and he is also a speculator.

A man may, *take* [taking] the supply of raw cotton, and the supply of manufactured goods, the state of the world trade and its buying power, *that* [think] cotton is worth more than the price at which it is selling, and he buys cotton. In the South they frequently buy spot cotton and store it. Others, in other places, will buy contracts.

Well, that is speculation or investment, as you choose to call it. He may make a profit and he may make a loss. But the hedge business is naturally a very technical and complicated one. It is not an absolute insurance for a hundred per cent.

The CHAIRMAN. It is not?

Mr. HOWARD. Your insurance company does not insure your house for 100 per cent, either, but only about 75 per cent, I think. The insurance company takes that much insurance on your house and you have to carry the other 25 per cent. But there will be a merchant selling cotton to a mill and he buys hedges as a protection. Well, there are speculative buyers and sellers. I think speculation is a good thing in the cotton market.

The CHAIRMAN. Do you?

Mr. HOWARD. Yes.

The CHAIRMAN. You think it is a good thing for the Nation?

Mr. HOWARD. Yes; because, in my opinion, it acts as a stabilizer

The CHAIRMAN. What does it do to those who get into Mr. Howard's Sargossa Sea and kick up the water in order to create a current? What does it do to the crowd that gets into the cotton market and knows nothing about cotton conditions and who are gambling in the cotton market?

Mr. HOWARD. That is largely a temporary condition.

The CHAIRMAN. That is, you mean as long as they last. [Laughter.]

Mr. HOWARD. Still these particular things make quite a splash temporarily; but I am looking at it in a broader way than that. Cotton is a world commodity, and while America grows ten million bales the balance of the world grows about as much.

The CHAIRMAN. Is that true?

Mr. HOWARD. Well, scarcely that much.

Mr. GLENNY. Pretty nearly that.

The CHAIRMAN. The rest of the world equals us?

Mr. HOWARD. Pretty nearly. Speculation looks ahead, beyond the immediate present. They study the trend of things. Speculation right now is engaged in putting [cotton] up to what the specula-

tors and I think is nearer its proper value under the present conditions of the small amount of cotton and the small amount of manufactured goods and prospective demand for cotton goods through the present great buying power of the world.

The mills at present can not sell their output and make a profit at the present price of cotton. But, in my opinion, the price of goods will have to advance, because cotton is going up anyhow because of these conditions. The mills won't buy the cotton now because they can not spin it into goods at a profit. Speculation is looking ahead and sees what is coming, and they are buying cotton, anticipating that later on the price of goods will go up and cotton will bring a higher price.

On the other hand, with a larger crop, speculation will look ahead and see that there is too much cotton, that cotton is selling too high for the world demand and the requirements, and they will sell it down.

The CHAIRMAN. It does not look so good, then, does it?

Mr. HOWARD. It does not look so good, then; but it will go down eventually anyway, because supply and demand are going to fix a price sooner or later.

Well, now, it seems to me that the sooner we get to a proper level in price the better for all concerned.

The CHAIRMAN. So that you really believe that the future contract, with the aid of those who are buying and selling, with some intention to deliver, and then the great horde of folks who come in with no intention to deliver or receive anything—you think, taking them all together, they do tend to stabilize the cotton market?

Mr. HOWARD. I do.

The CHAIRMAN. Of course they have not done very much stabilizing in the last three or four years.

Mr. HOWARD. We have had an abnormal condition for several years.

The CHAIRMAN. That is the way that the California climate acts. It is always abnormal. [Laughter.]

Mr. HOWARD. For the past three years, including this year, the growth of cotton in the South has averaged about nine and one-half million bales, and the world has consumed about twelve and one-half million bales of American cotton. We have been running on our accumulated surplus. Therefore, we have had an abnormal condition,

The CHAIRMAN. What do you figure the present carry over to be—two million bales?

Mr. HOWARD. All I can do is take the Government and other authorities, and they give about two and one-half million bales of American cotton carried over on the first of August. We are running into an absolute famine next fall, next summer and fall, and the price of cotton and cotton goods must go to a figure which will curtail the consumption of cotton goods and cotton within the available limits of supply. Now, what that price is, is a matter of personal opinion.

The CHAIRMAN. But it ought not to be away down below what it is next August, ought it?

Mr. HOWARD. I think it will be higher than it is now. Maybe not next August, because that will be affected by the acreage put in for the next crop.

The CHAIRMAN. And just how active our friend the boll weevil is, and a few other things.

Mr. HOWARD. Well, the weevil is a hard customer; it takes a hammer and anvil to put him out of business. He has eaten up things in my State—Georgia—in south Georgia particularly.

The CHAIRMAN. But if a year from now I should be in the land of the living, and you should, and you should stand in front of me and go over the cotton situation with me, and if the price of cotton had gone away down a year from now, had fluctuated violently down, then would you say to me at that moment that future trading stabilized the market? You would not. You would say that there was some other element in there besides future trading.

Mr. HOWARD. Understand me, Mr. Chairman, the chief object of a future market is for hedge purposes. The speculation is incidental. That comes in, but the chief object is for hedge purposes.

The CHAIRMAN. And the speculator furnishes the insurance function?

Mr. HOWARD. He broadens the market and helps to furnish insurance, and maybe pay some of the losses. I think they do, because I have been in the cotton business a long time, and I have seen very few speculators, whether they were bears or bulls, who in the course of a period of years did not hit the ceiling.

The CHAIRMAN. I think it was Mr. McFadden that gave them a butterfly existence of 20 years.

Mr. HOWARD. He was putting it too long for speculators. And, right there, neither the speculator nor the cotton merchant who hedges expects to take up that cotton. He does not want the cotton. The man who sells a hedge does not expect to deliver it. The man who buys a hedge does not expect to demand the cotton. He expects to buy or sell back that contract when he disposes of his cotton to a spinner or other buyer. It is an ad interim thing with him.

As said yesterday, these exchanges are only great world marts and clearing houses, and it requires only a small amount of cotton delivered to clear all this business that is done.

Now, I think it would make a safer market, safer contracts, if on these future contracts the cotton could be delivered at a certain number of points in the South. It would prevent the present possibility of squeezes in New York, because of the conditions as they now exist, cotton having to be forced there at a loss to the seller to deliver against his contract, and I don't think it would have a depressing effect, because we have the same condition in the northern markets now, which does not apparently depress the New Orleans contract market.

With regard to the grades tenderable. I remember years ago, when very low grades were delivered and the price of contracts was depressed because a small amount, only a few thousand bales, say, of these abnormal low grades, which were marketable only when you would find a buyer, and no ready market, the price of the contract was based on that small amount of low grade. Now, say, with low middling as the lowest grade (white), we have arranged to take in the great majority of cotton produced, and if a buyer has to accept cotton on a contract he gets something that is readily marketable and he is not afraid to take up the cotton. He does not run from it and sell out in the contract market, because of his fear that he will

get these low grades, for which there is very little demand; and naturally if anybody is delivering cotton on contract he will deliver the cotton for which they have the smallest demand.

I think that the grades deliverable should remain practically as they are. In the matter of differences, there has been a great change for the better in that. I can remember, with all due respect to the New York men who happen to be here, when New York fixed differences at long intervals which did not in any respect represent the current trade differences between grades, and this resulted in some extreme manipulation in New York on the contracts and on grades.

The present system of taking the average between grades of ten actual spot markets appears to me to be as near an ideal method as I can think of.

The CHAIRMAN. Better than five?

Mr. HOWARD. Better than five. Five is too small. I prefer ten.

The CHAIRMAN. It works better, you think?

Mr. HOWARD. The larger the number the nearer you get the proper difference between grades. All these grades are sold outside the South. They are sold to New England and sold across the water, and while certain grades, say in the eastern belt, and the Carolinas, where there are a lot of mills, might possibly be a little narrower, than they are in the West, where the demand is chiefly for export, or the East, you get a very nearly correct average by taking ten points. And, incidentally, I think the New Orleans method should be changed. I do not think New Orleans should on their contracts take the differences that are existing only in New Orleans and be a law to themselves.

The CHAIRMAN. Mr. Howard, you may not know this, but you may know it, and if you do I wish you would tell us about it. Is delivery in fulfillment of a future contract in New York City cotton on dock, cotton on car, or cotton in warehouse, where is the delivery there?

Mr. HOWARD. In warehouse.

The CHAIRMAN. It has to be there, does it?

Mr. HOWARD. Before it is delivered it must go into warehouse or be weighed or sampled or passed by the classification committee and certificated.

The CHAIRMAN. That is New York.

Mr. HOWARD. Yes, sir.

The CHAIRMAN. Have you any idea what the warehouse capacity of New York City is for cotton?

Mr. HOWARD. No. I do remember that one year I wished to ship cotton for delivery on New York contracts. I didn't own it, but it was being squeezed, and I could get cotton and could ship it on a profit, and I know I could not get warehouse room in New York to ship my cotton to. So I could not ship it.

A VOICE. What year was that?

Mr. HOWARD. I am not sure what year.

Mr. CAHILL. Will you put that question to me when I speak?

The CHAIRMAN. Yes.

Mr. HOWARD. At that time there were engaged in New York—you see these warehouses have to be licensed by the exchange——

The CHAIRMAN. Public warehouses?

Mr. HOWARD. Well, they have to be licensed by the exchange. You can not deliver cotton to any old warehouse; it must be one licensed by the exchange. They were engaged in finding other warehouses and licensing them, and possibly by the end of the month they had sufficient room, but it takes time to ship cotton from the South, and I could not ship it unless I knew I would have a place for it when it got there.

The CHAIRMAN. In your cooperative organization, how many actual producers are there represented?

Mr. HOWARD. Mr. Moser, I think, can tell.

Mr. MOSER. Between 225 and 230 thousand growers under contract to deliver their cotton to the association.

The CHAIRMAN. Now, Mr. Howard, do you think those 230 thousand growers, or do you suppose that the majority of those men are content with the present methods of marketing cotton, so far as the future contract is concerned?

Mr. HOWARD. Mr. Chairman, I think very few of them understand the future contract market at all. I will say I think a great many of them are prejudiced against those markets. They are not satisfied with the present general method of marketing cotton as shown by the great number who have banded together and joined the cooperative associations, in order to sell their cotton themselves; and they bind themselves to deliver every bale they grow throughout a period of five years, under a penalty, in case of failure or refusal to deliver, of from $15 to $25 a bale.

The CHAIRMAN. They do not make their contract to deliver to the association run with the title to the land, do they?

Mr. HOWARD. No; they can sell their land and get out. It does not cover the land, that is, does not cover the next man on the land.

The CHAIRMAN. I see.

Doctor STEVENS. I would like to ask one or two questions, if you have no objection.

Do the members that belong to your organization sell for themselves as well as through your organization?

Mr. HOWARD. Each State has a State sales manager. They chiefly sell to merchants or mills or nearby markets, while if their cotton is sold to the larger and more distant markets, it goes through my office.

Doctor STEVENS. What would be the proportion of your sales to the total crop?

Mr. HOWARD. Well, that is a matter that we do not know yet. We are having thousands of bales of cotton delivered to us every day, but it will depend on how much is delivered to us, and that we can not tell until the ginning is through and our deliveries are through.

Doctor STEVENS. Well, I meant last year.

Mr. HOWARD. I should say this year we will handle approximately 10 per cent of the crop.

The CHAIRMAN. Of the United States?

Mr. HOWARD. Yes.

Doctor STEVENS. What was it last year, if you have it in mind?

Mr. HOWARD. I want to change that 10 per cent. I was then referring to my twelve States. There is one other organization, the Staple Growers of Mississippi, which has no direct connection with my twelve States, and I did not include them. They have handled about 170,000 or 180,000 last year and the year before, and I don't

know what they will handle this year, but that is in excess of the 10 per cent that I named.

Doctor STEVENS. Would your position in reference to southern warehouse delivery be the same if only the port points were used instead of the port points and interior points? Would that affect your ideas with reference to the southern warehouse delivery, if only ports were specified?

Mr. HOWARD. Not particularly. I am inclined to think it would be better to have some large interior markets, because in such markets as Memphis and Dallas and Atlanta, which have a wide range of transportation, cotton is valuable at all those points, and in a certain way is more valuable than in New York, considering the difference in deliveries and differentials. But that is a matter of detail that I have not thought out very carefully, and I am speaking more for the principle than for the particular point.

Doctor STEVENS. Are you familiar with the differences in the method of quoting and determining prices, and differences at the different spot markets now designated?

Mr. HOWARD. No; I am not.

Mr. BUTLER. May I ask Mr. Howard a question?

The CHAIRMAN. Mr. Howard has the floor.

Mr. HOWARD. Certainly.

Mr. BUTLER. You state that you thought the method of quoting the New Orleans spot market should be changed, and are you familiar with the method with which the New Orleans spot market is quoted at present?

Mr. HOWARD. No; excepting so far as I think either you or Mr. Rankin stated it yesterday, that it is quoted either actual transactions or against bona fide bids or offers.

Mr. BUTLER. That is correct. You further made the statement that New York was not a cotton market but that New Orleans was a market that had available at all times one or two hundred thousand bales of cotton.

Mr. HOWARD. Yes.

Mr. BUTLER. And, of course, that cotton is for sale daily in the New Orleans spot market. If New Orleans was quoted on the average of the ten markets, and it happened that the spot quotation for the raw cotton, the actual price of cotton in New Orleans, should be sold, for instance, low middling, taken as a practical illustration, to make it clear, say that it quoted 250 off of middling in New Orleans, and the average difference of the ten markets would be, as it was in New York last Saturday, 218 points, would it not be possible for a New Orleans man to sit in New Orleans and buy cotton on the spot at 250 off, and deliver it at 218 off, and thereby make 32 points without moving out of his office, or seeking any other outlet for the cotton? Do you think the price of cotton would go up to the price of contract, or do you think the contract would become depressed to the price of the actual cotton? What do you think would happen under a condition of that kind?

Mr. HOWARD. Well, I would say you have that same thing now with the New York contracts.

Mr. BUTLER. I am not discussing New York; we have not that condition in New York.

Mr. HOWARD. Exactly, but I wish to draw a parallel in answer to that question. If the difference in New York is 218 off and cotton can be bought in the South at a much wider difference, they could deliver it in New York now under the present rules, and if, as you say, the difference was 218——

Mr. BUTLER. Providing the cost is sufficient to transport it and pay the charge——

Mr. HOWARD. Yes. And the same thing in New Orleans, if the average differences were narrower in New Orleans, I mean the average differences of different markets apply on New Orleans contracts, and were narrower than on certain grades selling in New Orleans exclusively, of course they could buy cotton of that kind and deliver it on contracts and make a profit. But it would have a double effect. It would reduce the New Orleans contract to a certain extent, and it would increase the value of low grade to a certain extent; that is, it would work both ways.

Mr. FINKE (New Orleans). Mr. Howard stated in answer to the chairman's question that he did not use the future market as a hedge. That is correct, is it?

Mr. HOWARD. Yes.

Mr. FINKE. You do not use the future market for a direct selling outlet, I mean for delivery of cotton on a contract?

Mr. HOWARD. No. We can do it, if we wish to do it; there is no reason why we should not.

The CHAIRMAN. But you do not?

Mr. HOWARD. No; not at present.

Mr. FINKE. Mr. Howard also stated that the organization he represents will probably sell 10 per cent of the cotton crop this year, and I wish to bring out this point by this question: Whether or not the organization he represents sells all their cotton at fixed prices, or whether or not in selling their cotton they sell it on the basis of the future contract—to bring out the point that indirectly Mr. Howard is interested in the hedge, if he sells his cotton, the bulk of it, on the basis of the future contract.

Mr. HOWARD. We make our sales in this way, Mr. Chairman. We are interested under the present system of doing the cotton business in the contract markets to a certain extent, the market is now fluctuating very rapidly, sometimes as much as two cents a day. I do not offer cotton at 30 or 31 cents, I offer it at a hundred on January contract. And then if we make a trade we fix the price based on what January is at the time, or what the buyer executes his hedge at, or taking the opening of New York or closing of New York and put a hundred points on January, and that fixes the price.

I can not afford, in the violently fluctuating market, such as this is, to offer at a fixed price. Should the market advance a cent or a cent and a half they accept our offer, and if it declines, they refuse our offer.

Mr. MCFADDEN. Mr. Howard, you just observed that you offered your cotton based on your January contracts, or December?

Mr. HOWARD. Yes; any active month.

Mr. MCFADDEN. That would be the trading month, then, the purchased would be December or January?

Mr. HOWARD. Yes.

Mr. McFADDEN. And would not the cooperatives you represent be very vitally interested in the relation of the nears and immediates? For instance, suppose they were a cent under July, would not that cost $10 a bale on the price you got for your cotton? The custom of the trade broadly is that we buy and sell our cotton based on December or January.

Mr. HOWARD. Yes.

Mr. McFADDEN. In view of the fact that there is a discount on the near months which would concern you, I don't exactly reconcile your position.

Mr. HOWARD. I don't recall saying anything about the near months being at a discount or a premium.

Mr. McFADDEN. The point I am making is would not that affect the price which your clients would get for their cotton, if you had a very large certificated stock?

Mr. HOWARD. I don't think so, Mr. McFadden. Our policy of selling cotton—and I wish you would get this for I want you all to know this. We are distinctly not a holding corporation. We are organized to sell cotton gradually throughout the cotton season wherever there is a demand for the cotton. We may sell more one month than another month if the demand is there and the world wants it. If they don't want it then we don't care to push it on the market, we wait for the demand.

Now, the price of cotton is to us the price that actual cotton will bring. We base our prices upon contracts for our protection against fluctuations. I have not been able to understand why—as you said a while ago, there is always plenty of cotton, whether the crop is large or small, in October and November—I have not been able to understand why near months should be at a premium during the fall, which may in July sell at a cent discount. Cotton should be worth more next spring than it is worth to-day, because there is going to be less cotton, and it costs money to carry cotton from now until next spring, and why there should be this heavy discount with a short crop is beyond my comprehension.

We are selling cotton gradually throughout a period of about ten months. We don't really care much whether December contracts are at a discount in July or at a premium in July. We are looking at the price we get for the spot cotton.

When I was a cotton merchant it made a great deal of difference to me in my hedges, the difference in the buying price of my hedges; but in selling actual cotton, where we do not have to get a profit in between the basis, it is the price we get for the spots that we look at, and what July may be compared to December makes very little difference to us. Does that answer it?

Mr. McFADDEN. Not quite; because I am not discussing the question of what the price of cotton is, it is a question of what you get. You say you are offering your cotton on the basis of January. We say January is to-day at 32, with July 31. Suppose January was 30 and July 31, what would you do—hold your cotton until you got 32?

Mr. HOWARD. We are going to hold some cotton until next spring regardless of price.

Mr. McFADDEN. But you see you have an opportunity to get out sooner, you could not sell your cotton to-day *with* [at] 100 on January unless it was a premium.

Mr. HOWARD. We do not know what the market is going to do. But our adopted policy is to sell it over a long period, and whether December is at a premium over July or a discount under July makes no difference; we will sell some cotton every day but we will hold some until next spring and sell it at whatever the cotton is at that time.

Mr. JOHNSON. Mr. Howard, representing the cotton growers, so nearly represents the attitude of the spinner on this question that I would like to ask him two questions, which he can answer very briefly.

You have stated that you were in favor of making cotton tenderable at certain designated southern points against New York contracts?

Mr. HOWARD. Yes.

Mr. JOHNSON. Would you approve or would you see any objection to making cotton tenderable against the New York contract at, say, at least one New England point?

Mr. HOWARD. No; I see no objection to that. It might be a good idea. Take a place like New Bedford, which has a lot of warehouses, and allow it to be tenderable there. All of these things are a little complicated. The differentials, as compared with delivery in New York, would have to be wiped out; but I think those could be wiped out; I think that could be easily done.

Mr. JOHNSON. It could be worked out from a New England point as well as from an interior southern point, you think?

Mr. HOWARD. Yes.

Mr. JOHNSON. You stated that the New York contract was primarily a merchant's contract and not a spinner's contract?

Mr. HOWARD. Yes.

Mr. JOHNSON. Would or would not the same contract, which protected the merchant in buying spot cotton and carrying it until it could be sold to the spinner at some future date, whether it would be a day, a month, or three months, would not the same protection in the contract which protected the merchant also protect the spinner in buying his cotton?

Mr. HOWARD. When the merchant hedges he does not expect to take up that cotton or deliver, and it is a protection for him. I think the spinners do the same thing to-day. They can use that market as a protection, and a great many of them do.

The CHAIRMAN. What does the man who delivers cotton do; is that a protection?

Mr. HOWARD. They do not have to take it, they do not expect to take it up. The spinner has to take it up; of course probably before the delivery time comes he would buy the cotton from Mr. McFadden or Mr. Clayton or Mr. Harriss, or somebody else, and sell out his protection contract in New York. If it does come to a point where he does take up the contract, he would take it up and sell it to somebody else. But, as I say, these things are used for hedges.

The CHAIRMAN. Then there is a modification. What you say now is a modification of your other statement, because the spinner is using that contract for hedging purposes and it is a spinner's contract as well as a merchant's contract.

Mr. HOWARD. No; I am not making a conflicting statement in what I have said. What I meant by its not being a spinner's contract was this: It is a spinner's contract for protection, in that way; but it is not a spinner's contract in that he can buy a hundred bales of cotton in New York and take it up and use it in his mill. That is what I meant by its not being a spinner's contract.

Mr. S. T. HUBBARD. I understand you to state that you sold cotton on call; that is, based on December or January price, with 100 on?

Mr. HOWARD. Yes; or maybe 50 on.

Mr. HUBBARD. Therefore, you do not care at what time during the day the buyer fixes his price?

Mr. HOWARD. No.

Mr. HUBBARD. All right. Therefore, if the market opens at 33 cents and closes at 33½ cents, and he fixes the price on the *class* [close] you get 100 on the closing price of 33½?

Mr. HOWARD. Precisely.

Mr. HUBBARD. All right July is selling at 100 points under December.

Mr. HOWARD. Yes.

Mr. HUBBARD. If you still continue to offer your cotton at 100 on Decembers and December sold 100 under July, you would not get 34½ for it, would you?

Mr. HOWARD. No; I would not.

Mr. HUBBARD. Therefore your price would be cheaper?

Mr. HOWARD. Yes.

Mr. HUBBARD. If you had the near position, rather than the distant position?

Mr. Howard. Yes.

Mr. HUBBARD. Therefore your farmer would not receive as much as he does to-day; is that right?

Mr. HOWARD. He would be getting as much as spot cotton was bringing anywhere else. He would not be getting as much compared with contracts, but he would be getting the price of spot cotton existing at that time, and that is all we can ask.

Mr. HUBBARD. If the spot cotton price is fixed on the contract, that contract is bringing more than July, and you reverse it where it brings less, you can not get as much; that is a mathematical proposition.

Mr. HOWARD. Yes; compared with July.

Mr. HUBBARD. Or compared with March.

Mr. HOWARD. Yes. I don't care what the relation is with any month; I want the best price I can get at which spot cotton is selling in the world.

The CHAIRMAN. Now, Mr. Howard, you have appeared here with the real aroma of cotton about you, actual cotton, and you have interested us very much. Have you finished?

Mr. HOWARD. Yes; Mr. Chairman.

The CHAIRMAN. It is now twenty-five minutes after twelve. Mr. Howard exceeded his time by half an hour. I think we will have to speed up this afternoon. I will ask you all to be here at two o'clock.

(Thereupon, at 12.25 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTERNOON SESSION

NOVEMBER 7, 1923.

Met pursuant to the taking of recess at 2 o'clock p. m.

The CHAIRMAN (Mr. Murdock). Now, if I appear harsh on the matter of time this afternoon, it is because we want to speed along, and we have a lot of people to hear and we are not going to get through to-day anyway, but we want to get through to-morrow. We had three days allotted to this hearing and to-morrow will be third day. We first call on Mr. Cone.

STATEMENT OF MR. JUNIUS W. CONE, REPRESENTING NEW YORK COTTON EXCHANGE

Mr. CONE. Gentlemen, you have heard a great deal about technical matters and the public dealing with the New York Cotton Exchange. I have been a member of the New York Cotton Exchange for a number of years and have used it strictly in carrying on our business, which is cotton manufacture.

The mills I represent use considerable cotton, and we have used the exchange a great deal, and we feel we could use it to much better advantage, and feel that the public could use it to much better advantage, and we feel that a number of people; that is, manufacturers of garments made out of cotton cloth, and jobbers who buy cotton piece goods could use the cotton exchange to advantage if we had a contract which was more or less of a buyer's and seller's contract, both, one where we felt that there was enough supply to make the contract reasonable and to protect the contract.

Now, I would like to buy cotton on the New York Cotton Exchange for delivery in the spring of 1924, May and July contracts. They look attractive. But I can not do it because I can not get the cotton that I want. But when it comes to selling, I am afraid to sell it, because I have not got the cotton to deliver, and I am afraid when it comes to delivering the cotton that if I ship it away from the mill that I can not spin it and deliver it too, and there is not enough cotton in New York to protect the contract, whereas if we had cotton delivered at points all over the South I would not mind selling my cotton, when I could not sell my goods, and take a chance of delivering that cotton and replacing it from the various points in the South.

I think all cotton manufacturers would be much better satisfied if we had deliveries of cotton on New York contracts at various points in the South. I think we would prefer to have some inland points, but if we can not get those, we would like to have the ports

But it does look unnecessary to go to the expense, if I want to deliver cotton in New York, to have to ship it from my mill to New York at a freight of over 75 cents, and costs another 40 or 50 points to deliver it, and then another 75 to 100 points to send it back to the mill, which would be a matter of 2 cents a pound; and if we had these delivery points in the South and I took up cotton, I could get it shipped through Galveston or New Orleans or Savannah or Norfolk and simply have to pay the freight from those points to the mill. As I see it, there is too much cotton handled on New York contracts,

with the small and limited stocks that we have to protect that enormous dealing.

Doctor STEVENS. Would you suggest any other changes in the contract besides southern warehouse delivery?

Mr. CONE. No, sir; I think the contract is just as good as you could make it *without* [with that] exception.

Doctor STEVENS. You do not think, then, that there would be any depreciation in the value of the contract through the fact that you would give the seller an additional option, that is, an option as to place of delivery as well as the present option he has as to time of delivery and grades?

Mr. CONE. I should not think so, after the public once learns the value of this contract and used it for its legitimate purpose.

I think that is all I have to say, Mr. Chairman.

The CHAIRMAN. We thank you, Mr. Cone. Now, then, we will hear from Mr. Britton, of Memphis.

STATEMENT OF MR. W. J. BRITTON, REPRESENTING THE MEMPHIS COTTON EXCHANGE

Mr. BRITTON. Mr. Chairman and gentlemen, when I came up here I came uninstructed.

The Memphis Cotton Exchange is composed, I should say, principally of cotton merchants. There are very few factors there now, or commission merchants as you know them, and in my rounds of the market and talking to the various men that I come in contact with for the purpose of feeling them out and seeing how they felt in regard to southern delivery points, I found them to be mostly in favor of it; but I do not think that the average man in Memphis had weighed the matter carefully and had realized what the effect of the southern warehouse delivery might mean to the part of the cotton trade in which we are really most interested, and that is the producer of cotton.

I can not see that this method would fail to make the contract much less valuable from a buying standpoint. Naturally if it is not attractive from a buying standpoint, it will be harder to sell.

It will have the effect, in my judgment, of doing one thing that the trade very much wants, particularly the merchants. I believe it would in all probability eliminate all possibility of a premium on the near month, because I think it is the natural inclination of the speculators to run from the actual. That is not a part of their business, they don't know what to do with it when they get it, and they are naturally not going to want to take it.

There seems to be a great deal of difference of opinion among men who ought to be capable of knowing what effect this thing would have on the trade. Some of them say it would absolutely destroy the value of the New York contract. Others say they do not think it would hurt it at all. I understand that it is part of the plan of the Federal Trade Commission not only to discuss the three points which they have set out but if it were possible that any suggestion on the part of the trade might come out of these proceedings that would fulfill the purpose without conforming to the letter of these objects, that it would be well to take that up.

The CHAIRMAN. Certainly. Go ahead with anything you have in mind.

Mr. BRITTON. Well, I have this in mind, that I believe that if the contract of the New York Cotton Exchange were made more flexible as to the length of time they were given to make the delivery on a month, after the sale of that month, and after the actual trading in that month had ceased that it might obviate the necessity of the southern warehouse delivery and accomplish the same purpose that that would accomplish.

For instance, if instead of having to deliver the cotton by the 29th or 30th or 31st of the month on which it was sold for delivery, if under certain conditions a safety valve was put on that contract to the extent that when it got to a certain level over the legitimate price that it ought to be, that the time would be extended automatically for the delivery of that cotton, and any man in the South who had sold that contract would have an additional length of time in which to deliver it, I believe that would prevent any technical matters such as transportation difficulties, lack of warehouse facilities, or anything outside of the actual value of spot cotton in the South, which would keep those forces from working to the extremity that they work at the present time.

The CHAIRMAN. Would you go this far: To extend the date of delivery in a month to a succeeding month, if the squeeze was apparent, is that as far as you would go?

Mr. BRITTON. Yes, but I should say for the first fifteen days; but I would rather limit that to the location of the point from which the cotton was proposed to be tendered.

Our friend Mr. Hogan is in a position to deliver cotton in New York in 48 hours. Most of us are not that fortunate. From some sections of the South it takes ten days and from some sections fifteen days. I believe cotton could be tendered in New York in fifteen days from almost any point in the South.

Another thing. Referring to the way that October and December have just gone out, the parity on October and December went out about 100 points apart. I believe that if the plan I have been suggesting had been in operation at that time that would have been utterly impossible, because I know there was a quantity of cotton in the South at that time which could have been sold well under the basis of the difference between the price it would have brought in New York and the price it was selling at in the South, which would have made a handsome profit to any man that could have tendered that cotton on New York and made a physical delivery of it in time to avail *itself* [himself] of the price.

Another thing is that freight could very often be saved in that way. I believe that New York, while it is not essentially a spot market, I think New York by its geographical location and on account of its facilities in the way of financial arrangements that are made there for the handling of cotton, I think New York's position in the cotton business should be guarded very carefully.

In the first place, it is not a spot market pure and simple. Therefore it is not subject entirely to the influences of spot cotton. It respresents the speculator's opinion, it represents to a large extent the spinner's ideas of the value of cotton; it represents a sort of composite average of the whole opinion of the world in regard to value of cotton. Now, that is a guide the trade is bound to have.

We talk about violent fluctuations, about government reports. We do not realize what would have happened if we were not gradually prepared for the final result. While these reports get out, we do not begin to realize what would take place if that knowledge burst on us all of a sudden, if between July and August, when we thought we had a crop of twelve million bales, we would suddenly wake up and find that we only have ten million bales. In such a case the fluctuation would probably come all in a bunch instead of a few hundred points at a time, and there is no telling what effect it would have on the cotton trade.

I think if I try to talk any more now I am liable to repeat what I have said. I have said what I intended to say and I would rather, if there are any questions anybody would like to ask, to have them ask them, questions about this plan, which I propose, and I will answer the best I can.

The CHAIRMAN. Your plan is merely for the extension of the days of delivery on the future contract in the city of New York?

Mr. BRITTON. Yes, sir.

The CHAIRMAN. There was a proposition of empowering the Secretary of Agriculture, so that when it was called to his attention that a squeeze was on in a delivery month, that then he could for a certain period of time declare certain southern markets delivery markets?

Mr. BRITTON. I would say that the best way to bring that about would be to let the action of the market bring it about itself.

The CHAIRMAN. How could that happen?

Mr. BRITTON. That whenever the parity between the near month and the succeeding active month became—you could set any limit you want to but I would suggest 30 points as the limit.

There is very little reason why it should go to 30 points over a following month, because whatever difference there is has got to be added to the cost of carrying that cotton into the next month, or the next month after that.

But I would say we ought not to tie that thing down too closely, for the reason that during short crop years I believe it is the most natural thing in the world that there should always be an inclination on the part of everybody to get what they can at the moment, realizing that the supply is going to be scarce later on. It puts the idea in a man's mind that if he wants anything he is going to get it now, while he can, and 60 per cent of the average crop of cotton, I understand, is marketed before the first of January, and naturally while all that business is going on it is the most natural thing in the world for the months that are most active and most traded in to be at a premium over the distant months.

So I would say when the market got to be 30 points for December over January, or the next month, or the next active month—although you know there are some months in the cotton business that are not traded in at all, November, for instance, you rarely get a quotation on—but I would say that the next active trading month, that the producer of cotton or the merchant has a right now under the law to certificate his cotton at any southern point where facilities are provided for the certification of that cotton. Now, all he has got to do is to notify the New York Cotton Exchange that he has certificated whatever number of bales of cotton he has got to satisfy the contract which he has sold in New York on such and such a delivery.

Immediately when that is done I would say that that is a satisfaction of the contract, with the exception that the actual physical act of tendering that cotton should be allowed to be completed in the time that transportation would require to get it there.

I believe that that will automatically shut off any such squeezes or manipulations as would be so abnormal as to seriously hurt or hamper the cotton trade, and I think it would do it in a way that would not be apt to hurt the present machinery that we have for handling the cotton crop.

It seems to me that the contract is ideal as far as the grades tenderable, and the *months* [methods] of arriving *and* [at] the differences, are concerned. I don't believe anybody has any criticism to make about that. Some think that a grade might be added. Everybody seems to think that none should be taken away.

Doctor STEVENS. Mr. Britton, I do not think I understood entirely your point. As I understood you at first, you proposed that the extension of delivery should be granted whenever the future price went to a point which was above the actual value of spot cotton in the South. Is that correct?

Mr. BRITTON. Well, yes: in a way that is correct.

Doctor STEVENS. As I understood your latter statement, it was that this extension should be made whenever the discount on the more distant future went 30 points below the future price for the current month.

Mr. BRITTON. Now, I did not mean the more distant positions.

Doctor STEVENS. Well, next position, then, beyond the current month?

Mr. BRITTON. Yes.

Doctor STEVENS. I just wanted to be sure that I understood both your propositions.

The CHAIRMAN. I thank you, Mr. Britton.

STATEMENT OF MR. BENJAMIN C. MARSH, MANAGING DIRECTOR OF FARMERS' NATIONAL COUNCIL

Mr. MARSH. I am managing director of the Farmers' National Council and am appearing here in this hearing, Mr. Chairman and members of the Federal Trade Commission, at the direct request of the Farm Labor Union of America. I have their letter asking me to appear, but I shall not take time to read it unless you desire me to do so. I can put it in the record.

The CHAIRMAN. You may put it in the record if you desire.

(Letter referred to not furnished the reporter.)

Mr. MARSH (continuing). May I briefly state what the Farm Labor Union of America is? It is a farmers' organization started three years ago last month, to which only farmers who live on their farms, whether they are owners or tenants or hired men or what, are eligible. They have about 300,000 members, about 125,000 in Texas. Their program calls for the farmers, the cotton growers, to ascertain their cost of production. They meet once a year, and they give in their averages, and they take the State averages, and then the national organization averages. They do that in order that they may

not only combat the boll weevil, but also the bale weevil. The bale weevil is the cotton exchanges and the gamblers in cotton, and they are doing their best to defeat them.

I might say that I had an opportunity to see very thoroughly the conditions, because I spent seven weeks this summer going around to different farm labor picnics, in Texas and Arkansas and Oklahoma, and this organization goes a little further in their program and calls for writing up as members all the cotton growers in those seven States. After they get about 75 per cent of all the cotton growers as members, and be able to control legislation, they are going to have municipal and State cotton mills right there where the cotton is raised. They don't want anybody to make any money out of cotton except the folks that do some work in relation to cotton.

The CHAIRMAN. Right at that point, that is the prospective cooperative scheme for the manufacture of their product. Do they now sell cotton as a cooperative association?

Mr. MARSH. What they do is this. They have a school for cotton growers at Tyler, Tex., a six or seven weeks' course. They get farmers' boys, whom they can trust, and teach them how to grade cotton. Then the individual members sell their cotton through these graded salesmen, who are distributed around, one practically in every county where there is an organization. A graded salesman is one who knows how to grade cotton. They take the market, the best price they can get, but they are not satisfied with that, naturally, because they have not been getting the cost of production.

The CHAIRMAN. They sell, however, as individuals; they do not sell as an association?

Mr. MARSH. They sell as individuals, that is, each cotton grower is an individual. They do not, however, write up their members for a long-term contract. The Texas Farm Bureau or Cotton Association writes up their members, if I remember correctly, for seven years, an ironclad contract. They are now suing those poor busted cotton growers down South for $5,000,000 for selling their cotton outside, and not paying a big salary to Aaron Sapiro, who is the J. P. Morgan of the cotton business down there, and we are going to ask an investigation of Congress as to how much the topnotchers have to make before the farmers can get in on some of it. Before Congress meets we are going to have a demonstration here on this very proposition.

Here are some of the suggestions the Farm Labor Bureau has asked me to make.

They recognize that you are a fact finding commission and you can not enact legislation, but you can recommend legislation, and I would like to stop long enough to say that there is not another national agency, in my judgment, after talking in about 30 agricultural States—that there is not another national agency in which the Farmers' Union as a whole have the confidence that they have in the Federal Trade Commission.

The CHAIRMAN. That is very gratifying to us.

Mr. MARSH. If it were not true I would not state it. I also would like to say that it is something like when my college president gave me a recommendation. He said a recommendation is a statement of the things you are expected to do from now on. [Laughter.]

We are now living in the hopes and in the confidence that the judgment of the farmers will not be shattered in what they think of the Federal Trade Commission.

Here is the proposition, gentlemen: The first thing asked is this—and they report it to you not because you can enact legislation, but because it is their conviction that they want to have you feel the same way about it, if possible. They want first the Norris-Sinclair Government marketing corporation bill, and other means of aiding the organized and unorganized cotton farmers in cutting out the middleman and speculators, and stabilizing the price of cotton. They recognize very clearly that you can not enact that law, but they are not particularly worried over the troubles of the bale weevil, the gentlemen who speculate in cotton, they just want painlessly to let him find some honest method of making a living and then they will invite him down to try to make a living in the forks of the creek in Texas or at the forks of the creek in Arkansas. They are not worried over the details of these things you are discussing now to any extent. You will have to discuss them for some years. It may not be in 1924, but 1928 the people will have captured Congress. It will be gratifying to have you folks point out how Congress has never yet been able to control or prevent speculation in cotton, and the astounding thing about the farm situation to-day is this, that the consumers of farm products are paying enough for farm products to beat all the legitimate costs of transportation and distribution, and still give the farmers the cost of production plus a reasonable profit.

Cooperation is good, but it has its limits, it has its limits as far as the world market is concerned.

You ask what a reasonable profit is. I asked that of Mr. Fitzwater, president of the Farm Labor Union. I asked what was a reasonable profit for the cotton grower, and he answered my question at some of the farm picnics, to the effect that the farmer should have the expense of production and about $50 a bale profit.

I suppose a bale weevil would not think that was any profit at all, but the farmers would be pleased, for the time being at least, with a net profit of $50 a bale.

They want any other measure which Congress can enact as a means of helping the organized and unorganized cotton growers to get the cost of production, but they are convinced that nothing can be done as long as the middlemen are able to secure the benefits and the profits which the cotton growers themselves can not secure.

They want the Department of Agriculture to adopt a hands off policy as between the Farm Labor Union and the Farm Bureau Cotton Association, and also as between the farmers and the bear gamblers.

I recognize that it is somewhat difficult to criticize a coordinate department of the Government here, but I am simply making a statement, which I know from my personal talks with hundreds of members of the Farm Labor Union, is a statement which they fully believe.

The Department of Agriculture seems to be working with the American Farm Bureau Federation, which all of the progressive farm organizations of the country are fighting tooth and nail. The Department of Agriculture, as I say, seems to be working for that

not only combat the boll weevil, but also the bale weevil. The bale weevil is the cotton exchanges and the gamblers in cotton, and they are doing their best to defeat them.

I might say that I had an opportunity to see very thoroughly the conditions, because I spent seven weeks this summer going around to different farm labor picnics, in Texas and Arkansas and Oklahoma, and this organization goes a little further in their program and calls for writing up as members all the cotton growers in those seven States. After they get about 75 per cent of all the cotton growers as members, and be able to control legislation, they are going to have municipal and State cotton mills right there where the cotton is raised. They don't want anybody to make any money out of cotton except the folks that do some work in relation to cotton.

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I suppose a bale weevil would not think that was any profit at all, but the farmers would be pleased, for the time being at least, with a net profit of $50 a bale.

They want any other measure which Congress can enact as a means of helping the organized and unorganized cotton growers to get the cost of production, but they are convinced that nothing can be done as long as the middlemen are able to secure the benefits and the profits which the cotton growers themselves can not secure.

They want the Department of Agriculture to adopt a hands off policy as between the Farm Labor Union and the Farm Bureau Cotton Association, and also as between the farmers and the bear gamblers.

I recognize that it is somewhat difficult to criticize a coordinate department of the Government here, but I am simply making a statement, which I know from my personal talks with hundreds of members of the Farm Labor Union, is a statement which they fully believe.

The Department of Agriculture seems to be working with the American Farm Bureau Federation, which all of the progressive farm organizations of the country are fighting tooth and nail. The Department of Agriculture, as I say, seems to be working for that

organization and is working against this program of the Farm Labor Union of America.

Secretary Wallace was as good a friend as the farmer ever had, but he is now working for this Farm Bureau. The Secretary went back and had somebody else go back 4000 B. C. and said that there never had been a successful price fixing. Now, we don't ask a specific price to be fixed by Congress year after year, but the handling of cotton the Farm Labor Union feels, must be taken out of the hands of the speculator, and 10 years hence it will be primarily the producers and the ultimate users of cotton that I think will appear before this commission.

The CHAIRMAN. Count No. 2, which I have listened to attentively, I should say that is a matter which should be presented to the Department of Agriculture rather than to us.

Mr. MARSH. I appreciate that, and I am glad you raised the point, because they are going to have a congressional investigation of the Department of Agriculture, which will be one of the most interesting things that has lately taken place. Of course, what I am saying here is being said under instructions. I am acting under instructions.

The CHAIRMAN. What is point 3?

Mr. MARSH. The third point is this. More decent treatment for the dirt-farmer organizations (the Farm Labor Union) and less favoritism for the sidewalk and larger farmer aggregations, the American Farm Bureau, the War Finance Corporation, the land bank, etc.

Now, they make the direct charge that the intermediate credit bank established under the credit law of the last Congress has stated to them, down at Houston, the officials of it, that they would not loan money on warehouse certificates to any farmers in cotton growers' associations unless that cotton growers' association has a long-time contract; in other words, several of the cooperative associations have tried a long-term contract, for five or seven or ten years, or whatever it may be. Now, if that is correct, and they later send me further evidence on that matter, it is saying to us that that is a matter which in the general inquiry you are making of the cotton industry you might be at liberty to investigate.

They state cotton farmers are badly affected by the instability of the price of cotton caused by gambling. In 1922 most farmers got only 20 cents, although the price ultimately went up to 30 cents; and this year few farmers will get more than 26 cents, and every indication is that cotton will go to 35 cents. If the boll weevil was killed and we had had a crop of twelve million bales this year, it is likely the price of cotton would be somewhere down around 15 or 18 cents. Certainly if we had the world crop we had in 1914, 23 million and more bales, the cotton growers would expect to get near the cost of production.

They feel that the amount of cotton is not the factor to determine what price the farmer shall get. They want the farming of their lands, the production of cotton, taken out of the influence of gambling and they want to see if there is a crop of 14 million bales or 4 million bales that the cotton grower of the United States gets the cost of production and a reasonable profit. If this administration can not bring that about, we will get an administration that can.

In other words, it is the function of the Government to do that. The farmers are not in the speculative business, neither the wheat growers or the cotton growers.

The CHAIRMAN. Of course the men that grow that cotton down there, whether members of this organization or not, do not deal in futures themselves.

Mr. MARSH. No; they don't do any gambling.

The CHAIRMAN. They actually sell the cotton. If the future market should be abolished do you believe, and do they believe, that it would be to their injury, that it would hurt them?

Mr. MARSH. It might. As I stated in opening, this is a matter the details of which I do not know. You have asked for my opinion.

The CHAIRMAN. Let us have your opinion, inasmuch as it would not be fair to use the opinion of——

Mr. MARSH (interrupting). No; it would not be.

The CHAIRMAN. What is your opinion? Suppose the cotton future market to-day was cut off, there was an end of it, allowing a certain time for adjustment—and it takes quite a time to adjust things to such a change—but say beginning next August, would the absence of that future market from the United States harm the cotton grower or would it help him?

Mr. MARSH. I can not see that it would harm him very much, and one reason is this. I think that last month the Department of Agriculture issued a statement countering the statement of the farmers that they got a much better price for their crop toward the end of the year than immediately after, in other words, that the grain exchange performed a useful function, there was a difference of six or seven cents or possibly eight cents a bushel, which would barely meet carrying charges. Now, all that proves the farmers never get a fair price, with or without gambling in futures. There may be a few exceptions, such as the fruit organizations and the tobacco organizations.

I don't think the abolishing of gambling will particularly affect the prices the farmers get because as long as the big financial interests have control of the marketing of those products, the farmer is going to get just as little as they want to pay him. And we do feel that it is a government function to have a general coordinating marketing organization, which is not a substitute for the local farmers' cooperative organization, but it will make those more possible.

Now, it is difficult to see why gambling or dealing in futures should be a protection to a fellow after the crop has gone out of his hands. Of course the wheat and the cotton gets out of the hands of the farmer very rapidly, particularly the wheat.

So I can not see what effect that would have, it is hard for me to see, because I spent four years in the graduate schools of Ohio and Pennsylvania learning the old line economics, and I have had to try to forget them for the last twenty years.

So we do not believe any cotton exchange or stock exchange can affect the price of cotton or wheat very materially *until* [if?] the farmer can control through Government agency or individually, I mean as an organization, can control his cotton or his wheat practically through to the ultimate consumer.

The CHAIRMAN. I am getting the drift of your argument. Your argument is this: That you do not seem to be very much concerned one way or the other with the future market; and you say that the practical marketing of cotton is a local sale plus the national govern-

mental marketing of surplus, and of the whole crop of the country—that is about what you say?

Mr. MARSH. Yes, sir; substantially.

The CHAIRMAN. You superimpose upon any scheme here that there is going to be no relief to the farmer until the whole crop is marketed by the governmental agencies?

Mr. MARSH. Certainly, as to cotton. I do not see any other way out until we have one or both; that is, the governmental marketing organization, and the farmers' efficiently managed cooperative association.

The CHAIRMAN. Suppose you have got your national organization going, your local organization and your cotton, your national organization to take care of the surplus. How would you get that cotton to the spinner?

Mr. MARSH. I would leave it up to the Government marketing corporation. I would personally not give you any advice about that. Let them hire a man that knows their job.

The CHAIRMAN. Then do you think there would be any deprivation there to the spinner which would prevent him from taking care of forward orders and forward buying?

Mr. MARSH. It seems to me it would be a protection to the spinner to know that the price of cotton is not going to go much below what he paid for his cotton; and so he will be protected in that respect.

I think one of the things business men want most is stability and assurance that there is not going to be a violent fluctuation. That is where a good many concerns have gone on the rocks financially.

Of course, the whole purpose is to avoid and prevent speculation in farm products, and this national organization is consistent, the whole organization is out against land speculation and against taxes on improvements and machinery and letting unused land go without taxation. They want to prevent speculation in farm lands.

The CHAIRMAN. Is this No. 4?

Mr. MARSH. Those are some of the conditions which they are complaining of.

The Department of Agriculture, through publishing bearish cotton conditions in their reports, usually just when cotton gamblers hold the price of cotton down, is injuring the cotton grower.

The United States Department of Agriculture and its agents, and the land bank, working with the farm bureau cotton associations, which do not handle one-tenth of the cotton handled by the Farm Labor Union of America, are injuring the cotton growers.

The Federal Farm Land Bank officials in Houston, Texas, as I have said, have informed the Farm Labor Union that the intermediate credits are only for cotton organizations that have a time contract, and the Farm Labor Union does not ask any cotton grower to sign any compulsory contract of this sort. The intermediate credit banks seem to be used to help the cooperative organizations affiliated with the farm bureau and those which get their credit through Mr. Sapiro, agent for Mr. Eugene Meyer, jr., managing director of the Finance Corporation, which seems an unwarranted discrimination against the Farm Labor Union membership.

The CHAIRMAN. I would like to ask you some questions on these three things. I know you are not an expert, but you have been listening here and I would like to ask you what you say as to this southern warehouse delivery proposition. That delivery can be made at the southern warehouse as it is at present made at New Orleans, what would you say to extending that?

Mr. MARSH. Why, I don't see why there should be any discrimination against one locality and another locality, why you should not be allowed to make delivery any place you want to. But I don't know this end of it. These folks who have been through this whole thing and know it could not get up here. They have simply reached this conclusion as to how they want to get out of this situation, and I am not authorized to express personal opinions one way or the other.

The CHAIRMAN. But what do you say about those ten tenderable grades, because we are going to have that up in Congress. It is up there all the time; men are making speeches about it, and there is quite a little school in the Senate which holds to the belief that the ten tenderable grades in section 5 of the present law allow too much latitude in satisfying the contract for future delivery. What do you think about it?

Mr. MARSH. My opinion on that would be simply that of a tyro; but January 6, 7, 8, and 9 we are going to have four or five of the National and State officials of the Farm Labor Union here. I don't know whether you have to complete your report by that time or not, but I would rather not express an opinion, and I would like to write to them and get them to submit their opinion in writing. I would rather not do it personally.

The CHAIRMAN. Have you anything to say on that proposition about established differences?

Mr. MARSH. No; I have not. I don't know anything about that, the technical aspects of that, and I have learned enough, since I have been talking a great deal, not to talk about something I don't know anything about. I don't know that subject; it is a technical thing. But I would like to get their opinion also on that, and ask them to submit it in writing.

The CHAIRMAN. Well, there is no mistake at all that you are against the futures market?

Mr. MARSH. As representing the Farm Labor Union, very distinctly.

The CHAIRMAN. And I take it personally you do not differ much from those you represent in that respect?

Mr. MARSH. Not in the slightest. I thank you very much.

STATEMENT OF MR. HARVEY JORDAN, ST. MATTHEWS, S. C., REPRESENTING THE AMERICAN COTTON ASSOCIATION.

Mr. JORDAN. Mr. Chairman and gentlemen, I want to say that I am here to represent the American Cotton Association, that particular group of the association which is known as the cotton growers, and their local business affiliations throughout the cotton State.

The American Cotton Association also has in its membership manufacturers and cotton merchants, cotton brokers, and practically every department in the cotton trade.

I am going to discuss these three propositions from the standpoint of the growers, because these other groups can discuss the matters that interest them just as well or even better than I can.

Now, in regard to deliveries at southern warehouses, the cotton growers of the South are opposed to that proposition.

Commissioner NUGENT. Just a moment. How many growers, as you term them, are members of your association?

Mr. JORDAN. Anywhere from three hundred thousand to four hundred thousand members in the eight hundred and five cotton-growing counties. They oppose southern warehouse delivery for two reasons. One is that they regard it as impracticable, and the second reason is that it would perhaps tend to have a depressing effect upon spot cotton.

Now, I think it has been pretty generally brought out at this hearing that the New York and New Orleans cotton exchanges function largely for hedging purposes, for the benefit of the cotton merchants and other traders who are engaged in the buying and handling of spot cotton. It has also developed that the sellers of a contract want to make it very difficult to deliver that contract. Now, if that be true—and I regard it as true, because I have studied the cotton exchange problem for the last twenty-five years—if that is the policy of the seller, it could be used to just as good advantage if we had southern deliveries just as it is to-day.

We know that the seller of a contract on the New York or New Orleans Cotton Exchange to-day can fill that contract in any one or all of ten grades. Now, if we have ten delivery points in the South, and I buy a one hundred bale contract, and the man who sells me that contract, when I call for that cotton, knowing that he can deliver that contract in one or ten grades, and at ten different points, would perhaps deliver me one-tenth of it in New York, one-tenth in Memphis, one-tenth in Galveston, one-tenth in Norfolk, and perhaps at all points it would be a different grade, unless the law was so changed as to compel him to deliver it all at one particular market point, and I doubt if that compulsion would be carried with the law.

So I do not see how it is possible to pass a law of that kind unless the New York Cotton Exchange is willing to allow the buyer to call for an even-running grade, and that would convert the exchange then into a spot-cotton exchange and not the cotton futures hedge exchange.

I am satisfied that the establishment of an amendment of that kind to the cotton futures contract would be a hardship upon the smaller cotton merchant.

I realize, and have for years and years, that as long as we market cotton as the American cotton crop is marketed, both for the benefit of the grower and the spinner, it is absolutely necessary to have well-organized cotton exchanges, for the purpose of stabilizing, as far as possible, and making uniform, the price of spot cotton at all of the varied marketing points throughout the country.

I antagonized the old contract that was used on the old New York Cotton Exchange for a good many years. I objected very seriously to their method of arranging the price differences and to the delivery of practically all grades of cotton that could be grown on a contract. But since the Lever Act was passed and the business was put under the jurisdiction of the Federal department, I think we have had a fairly good contract, and so far as I know the people generally are satisfied with it. They do not ask for any material changes in the law.

We realize that it is impracticable to pass any law under our present method of conducting the exchanges which would give the buyer the right to call for any specific grade of cotton, because the seller of a contract sells something very often that he does not possess, and he does not know whether he will ever get it or not, and to require him to deliver even-running grades, or any three particular grades, in a contract, would have to carry with it the right to regulate our seasons and the amount of different grades produced that year.

The CHAIRMAN. Why is there not a limitation on these ten grades as against the twenty which you oppose?

Mr. JORDAN. Because there never has been a season when we could not raise those ten grades, not in my recollection, and I have been in the game forty-five years.

The CHAIRMAN. Has there ever been a season when you did not raise twenty grades?

Mr. JORDAN. Well, since the boll weevil came among us, we do not have much late cotton, very little, and unless we have an unusually bad season in September and October, the farmers are very apt to pick a fairly good grade of cotton; but up to the invasion of the boll weevil I have myself picked out cotton a great many years in the middle and latter part of March of the following year, and of course that cotton was of a very low grade. But we have no such experiences now. Whether it will ever come back again or not, I do not know.

The CHAIRMAN. Have you any idea what proportion of the cotton production of the United States is really now within the ten grades of section 5—what percentage approximately?

Mr. JORDAN. Well, I should say that in the old States east of the Mississippi River practically all of it is within the ten grades. There may be in portions of Oklahoma and Texas, where they are still picking cotton, they may have some out of the lower grades, like ordinary and good ordinary and grades of that type.

The CHAIRMAN. I have a recollection, Mr. Jordan, back about ten years, that before the law was changed at all there was an attack on a variety of cotton that it seems to me was called "red dog." Was there a "red dog"?

Mr. JORDAN. "Red spider."

The CHAIRMAN. Well, what has become of "red spider"?

Mr. JORDAN. Pretty active this year.

The CHAIRMAN. It is not within the ten grades of cotton?

Mr. JORDAN. Oh, you are speaking of a grade of cotton?

The CHAIRMAN. Yes.

Mr. JORDAN. I thought you were speaking of an insect. [Laughter.]

The CHAIRMAN. There was a very inferior grade of cotton, which I thought was called "red dog."

A VOICE. "Dog tail."

The CHAIRMAN. What is "dog tail"? Now, what has become of the "dog tail" cotton?

Mr. JORDAN. Well, we get the cotton before we reach the tail now, the cotton is picked out before we get that far along. The boll weevil gets all of the late cotton.

The CHAIRMAN. Then you say that practically all of the cotton that is produced in the United States comes within the ten grades of section 5?

Mr. JORDAN. I don't say all of it, but I would say practically all of it does.

The CHAIRMAN. So that the old twenty grades we had before 1914 have diminished to ten?

Mr. JORDAN. Unless they are gathered in the forms of what we call bollies. You know bollies is late cotton where the boll is cut and it won't open, the frost gets it. They get in there and pull off those bolls and carry them to a hulling gin, and have them hulled and run through the gin. It is immature, short staple, and of a very low grade type. It is known as bollies, and of course is not tenderable on contracts.

The CHAIRMAN. Where does the linter get into this?

Mr. JORDAN. The linter is the regin of the seed. The first process is to separate the seed from the plant, and those seed are sold to the oil mills, and when they reach the oil mill they are run through gins that are equipped to take off that little short fur, off the seed, and the first run is known as mattress linters; that is, it is long enough to manufacture various things out of.

The CHAIRMAN. Horse collars?

Mr. JORDAN. Yes.

The CHAIRMAN. Where is the linter grade in the cotton market, what do you call them?

Mr. JORDAN. Just call them linters, first run linters and second run linters; where there is a sufficient demand to authorize a second run, as we did through the war.

The CHAIRMAN. Is there a future demand for linters?

Mr. JORDAN. No, it is not quoted; neither is long staple cotton. We have no way of protecting what is known as staple cotton, anything that runs above an inch and a sixteenth begins to get into the class of better staple.

The CHAIRMAN. Does the Arizona cotton have a future market?

Mr. JORDAN. No; not at all.

The CHAIRMAN. Why not?

Mr. JORDAN. Because it is a long-staple cotton, it is Egyptian cotton. We import it from Egypt and they plant it in Arizona, and it will run from one and a quarter to one and three quarters.

The CHAIRMAN. Suppose I was a spinner; why should I not have a right to protect myself against the forward purchase?

Mr. JORDAN. Because there is such a small quantity produced.

The CHAIRMAN. But does that affect the proposition that I ought to be protected? It might go up in price, why should I not have a right to hedge on that?

Mr. JORDAN. Because there is no exchange that handles it.

A VOICE. There is one Egyptian market. It is in Liverpool.

The CHAIRMAN. So there would be a chance for me to take care of myself by going out of the country?

A VOICE. Yes.

Mr. JORDAN. Now about the only suggestion we would offer is this. We are opposed to any drastic changes in the present contract. We do not think it would serve any good purpose. There is a pretty strong sentiment, though, that this contract should be amended so as to give the buyer a little more equal right with the seller in regard to the date for delivery. In other words, the seller now has about thirty days in which to deliver a contract on certain specified tender days. The buyer can only demand toward the latter part of the month—about the last five days.

The suggestion is that the seller has the right to tender on, say, the 25th of the month. Say it falls on Friday. Let the buyer then have the right to call the following Thursday. Then the next Friday he still has the right to tender, and the next Thursday the buyer can have the right to call.

That would give the buyer a little better standing; that is, on a more equal basis with the seller, than he now occupies.

That is about the only suggestion that we have to offer in connection with any revision of the present act.

Now, in regard to price differences in the grades, that question has been looked into pretty fully and we have been considering it from the standpoint of the intrinsic value of the different grades; in other words, start at the primary source, what is cotton grown for? Grown to be spun into yarns, first. Then, if that be true, the price of the different grades should reflect their relative value when converted into yarns.

The Government thought enough of that proposition a few years ago to spend fifty thousand dollars to make a test. Those tests were on six different grades, on good middling, fair, and going down to good ordinary.

The result of the test was that there was practically no difference in the breaking strength of the yarns, and very little difference in the weights.

It seems to me that that matter ought to be investigated, because the present wide differences between the grades makes a pretty heavy burden upon the grower. It costs the farmer just as much money to plant and cultivate and harvest, gin, pack, and sell a bale of low middling cotton as it does a bale of middling cotton.

If there is but little difference between the value of one grade as compared with another, when converted into yarns, the primary purpose for which that cotton is grown, it seems to me it ought to enter as an important factor in arriving at the price differences between those grades in the spot markets of the country.

Now, of course, the question might arise that there is a heavier demand for one particular grade than another; but I don't think that, particularly in times like this, when we know that every bale of cotton is going into consumption and there will not be enough to meet the demand of the world, I don't think there is any reason why these differences should be widening up to two hundred and fifty points—and I understand that in the near future they will reach five hundred points or $25 a bale between low middling and middling cotton.

The CHAIRMAN. How are you going to get a person to buy cotton he doesn't want? You can not do it by law. Who is going to prevent them giving a premium for the particular kind they want?

Mr. JORDAN. We don't ask them to give any premium, but simply its value.

The CHAIRMAN. But your proposition seems to convey to my mind that a spinner preferring one cotton over another cotton should be compelled to take either or both.

Mr. JORDAN. No, sir. I mean a spinner who is using middling cotton should not pay middling prices and a spinner who is using low

middling should buy his at two or three hundred points cheaper when he will get practically as much money out of his yarns as the other one.

Mr. CRAMER. I beg to differ with that. I say that that is absurd, and I am a spinner.

Mr. JORDAN. I have the statement here made by the Government, and I would like to file it.

The CHAIRMAN. Mr. Cramer, if you interrupt, you have to do it with Mr. Jordan's consent, as he has the floor.

Mr. JORDAN. I do not [?] say that here are tests made by the Federal Government, and it shows a very small difference between the weight and breaking strength of the different yarns, and now if you are prepared to disprove that, I would be glad to have you do it.

Mr. CRAMER. May I answer that to this extent? It is a question of the machinery required to do that. If there is no object as to the amount of machinery required to treat low-grade cotton, that is true, but that question was entered into at one of our conventions and was proved to be untrue. I am afraid you are not up to date on that.

Mr. JORDAN. Perhaps not, but I am just depending on what the Government tests have been. If you say it is not true, of course you ought to know something about it.

Mr. CRAMER. I say it is quite as true as all the other Government statements which you fellows occasionally dispute when it suits your purpose.

The CHAIRMAN. You are not as far apart as you think. You made one statement, that cotton of different staples had equal strength, and Mr. Cramer says that there is a mechanical difference in the spindles and in the machinery used, the machinery a spinner operates, which makes cotton of different staples, even if they are of the same strength, a different proposition to the spinner.

Mr. JORDAN. I am simply going by the tests made by the Government. Of course, if that is false, I have been misled, but I still stick to my statemnet until it has been proven to be incorrect. That is about all.

The CHAIRMAN. Now, Dr. Stevens, do you wish to ask any questions?

Doctor STEVENS. No questions.

The CHAIRMAN. I have been holding some of the best speakers to the last. Mr. Goldman, are you getting tired?

Mr. GOLDMAN. I have a telegram from the exchange that I would like to read.

The CHAIRMAN. Suppose you come forward and talk a little.

STATEMENT OF MR. J. L. GOLDMAN, OF DALLAS, TEX.

Mr. GOLDMAN. I was sent here by the exchange without any instructions, and yesterday I received the following telegram, which I would like to read:

Mr. J. L. GOLDMAN,
Care Otis B. Johnson, Chairman Federal Trade Commission,
Washington, D. C.:

We are informed that you have under serious consideration a plan by which deliveries will be made at warehouses at southern ports against contracts in the New York market. Before adopting this change we desire to say that in our opinion it will bring on the most disastrous consequences; to the interest of the producers of cotton it will make possible bear manipulation. As each month nears maturity large merchants with enormous stocks in warehouses at delivery points can at any time, without moving a bale of cotton, tender a half million bales on the near months in New York, when the trade is not prepared to take it and depress the market far below the economic value by sheer force of quantities. We *mention* [maintain] that near month premiums are logical with short crops.

We also maintain that what the world needs most are larger crops, and the first consideration should be the interest of the producers, and we are unalterably opposed to any method which will make possible the artificial depression of the values to the producer while he is in the process of marketing his crop. Spot quotations to-day are very largely influenced by the near month future quotations, and when you make bear manipulation possible by easy and artificial delivery of abnormal quantities of cotton, you simultaneously artificially depress the spot values throughout the South during a period of short crops such as we are now having. It is the difficulty of securing quantities of cotton for near months delivery which keeps bear manipulation from attacking the near months. In the future markets it is the logical consequence of short crops and we can not see where there is any demand for or any reason why artificial methods should be brought in to bring about a widespread depression in values of spot cotton. If you are of the opinion that something should be done to curb undue bull speculation in near months, we think if you will change the present law limiting the number of grades tenderable and which has at present outlawed a very great percentage of the farmers' cotton, you will have gone a long way towards preventing the evils which you probably have in mind. We suggest that you increase the number of tenderable grades to cover a greater percentage of what the producer has to sell.

The CHAIRMAN. Then the impression I got is not correct. I got the impression, from casual reading, that Dallas was a kind of leader or pioneer in this scheme for southern warehouse delivery. Now that is all wrong, is it not?

Mr. GOLDMAN. Well, Mr. Chairman, as stated to you at the outset, when I was asked to come up here I asked whether the president had any instructions, and he said no; to come up here as a free lance and see what was done.

The CHAIRMAN. Did the exchange at Dallas ever make an expression in favor of that proposition?

Mr. GOLDMAN. My impression is that they have not.

The CHAIRMAN. Who is the guilty party that told me they had?

Mr. GOLDMAN. A short time ago there was a gentleman that came from this department to Dallas, and I think he made the rounds. Now, he visited the various heads of the firms in Dallas, and doubtless from them he got an expression; but just what each one said, of course, I have no means of knowing. But I am strictly of the opinion that no action has ever been taken by the Dallas exchange. If an opinion has been expressed, it has always been a personal opinion.

The CHAIRMAN. Did our agent interview you?

Mr. GOLDMAN. Yes.

The CHAIRMAN. Do you remember the expression you gave him?

Mr. GOLDMAN. Yes; I told him I favored the extension of the contract, but I was doubtful in my mind as to the advisability of the interior deliveries. I am quite sure he interviewed several other firms, but I don't know who they were.

Mr. BLANCHARD. I have a letter from the Dallas exchange written April 18th and signed by Mr. J. L. Goldman. It is as follows:

Commission appointed by U. S. Senate to investigate operation of the N. Y. Cotton Exchange, Washington, D. C.:

GENTLEMEN: It is the sense of the Dallas Cotton Exchange, expressed through its directors, that the present operation of the New York and New Orleans

Cotton Exchanges operating under the existing U. S. future act fails to function in the manner for which said exchanges were originally organized and as such exchanges should function; that is, to facilitate the buying and selling of spot cotton in a manner to conserve the interests of and to act as a protection to all people engaged in such business from the producer to the ultimate consumer of raw cotton.

Under the present law limiting the number of grades deliverable on future contracts to the ten following grades:

1. Middling fair.
2. Strict good middling.
3. Good middling.
4. Strict middling.
5. Middling.
6. Strict low middling.
7. Low middling.
8. Strict good middling tinges.
9. Good middling tinges.
10. Strict middling tinges.

a large per cent of the cotton crop is outlawed, and under the present rule of the Government future act, limiting the delivery on contracts in New York and New Orleans to such cotton as is on hand in New York and New Orleans warehouses designated by said exchanges, the opportunity is offered any firm or group of firms, who are strong enough financially, to bring about an unnatural and unwarranted price on one particular option, as compared with the selling value of the cotton in any of the other markets of the world, to the detriment and loss of the legitimate trade who have sold or purchased said option against spot cotton in the South, and without adding one point to the value of the rest of the crop as a whole.

Be it therefore resolved by the Dallas Cotton Exchange, That your committee is petitioned to take such steps, and to use its influence to the end that a law be passed by Congress:

First. Increasing the tenderable grades for delivery on New York and New Orleans contracts to include all grades of the value of Strict Good Ordinary and up, as designated by the U. S. Bureau of Standards.

Second. To make it legal to tender cotton for delivery on New York and New Orleans contracts in any of the ten designated spot markets of the South which have proper warehouse facilities and designate warehouses for such purposes; the value of such deliveries to be equalized by freight differential and charges which accrue towards making spot delivery against New York or New Orleans contracts, as the case may be.

Very truly yours,

J. L. GOLDMAN, *President.*

The CHAIRMAN. The answer to that, Mr. Goldman, is that you folks down there have changed your mind?

Mr. GOLDMAN. Yes. In fact, I had really forgotten this. I did not recall this at the moment.

The CHAIRMAN. I am interested because you come from my section of the country, and we have to be watchful of the southern people.

Mr. GOLDMAN. Well, there is the letter and there is the telegram.

The CHAIRMAN. Well, they do not jibe, and there must be some reason for that. This is evidently a matter of some controversy, this southern warehouse proposition. We have men from New York here, one in particular, who ably presented the proposition, Mr. Clayton on one side, and we have called others who have presented it equally ably on the other side. Now, Dallas's first thought on this was that it would be a pretty good thing to have ten delivery points down South, and, of course, Dallas would be one of them. Now, your actual personal opinion, which I care a good deal for, is what? Is it a good thing or not?

Mr. GOLDMAN. I tell you candidly I can not say.

The CHAIRMAN. That is, you mean you don't know?

Mr. GOLDMAN. We would be branching off into something that would be an experiment. It would be only an expression of opinion, one man's opinion against another's, and one man's opinion is as good as another's as to the future. I have never been able to call the market the following morning, and I do not see how you can tell about this. You might change your mind, just as it has apparently been with the Dallas Cotton Exchange. We have new directors every twelve months, and the new directors may have different opinions from the old directors. I don't know how many were present when this meeting took place, but there is a telegram there showing every man that signed the telegram protesting against the change.

The CHAIRMAN. This change in directors was hard on the president. Here is another question. I have followed the world. We do a lot of talking about Wall Street and the influences of Wall Street. If sentiment in a Kansas town changes over night and some leader changes the sentiment, then we wonder if we do not have some communication with the folks down Wall Street. Is there any mysterious and telepathic pressure from you on Wall Street to bring about a change like this?

Mr. GOLDMAN. The only time I have ever come in contact with Wall Street is when they call for margin. They have been calling for it three times a week. I think a lot of these gentlemen will bear me out in that statement.

The CHAIRMAN. Dr. Stevens, do you want to ask any questions?

Doctor STEVENS. Yes, sir. Did you yourself personnally at one time favor southern warehouse delivery?

Mr. GOLDMAN. I do not think I have ever at any time stated that that I have absolutely favored it or was against it.

Doctor STEVENS. Was not there a letter sent by your exchange in 1922 to several Congressmen and Senators recommending southern warehouse delivery?

Mr. GOLDMAN. Possibly so, but I would not say positively.

Doctor STEVENS. Would that letter have been sent merely on the vote of the board of directors only?

Mr. GOLDMAN. It may have been the result of a stockholders' meeting; I am not sure. The letter itself, though, I think, would explain whether it was a board of directors' or whether it was a stockholders' meeting.

Doctor STEVENS. You do not know yourself, then, personally, whether recommendations made to certain Congressmen and Senators for southern warehouse delivery expressed the opinion of the exchange or the opinion of the directors? Is that your position?

Mr. GOLDMAN. I would say in either case perhaps it was not unanimous.

Doctor STEVENS. Did you yourself sign that letter to the various Senators and Representatives?

Mr. GOLDMAN. I do not remember. If it was passed by the board of directors, naturally I signed it; that is, if I was president at the time.

Doctor STEVENS. You do not remember whether you signed such a letter or not?

Mr. GOLDMAN. No, I could not say. It would be a matter of record.

Doctor STEVENS. You do not know the circumstances?

Mr. GOLDMAN. No.

Doctor STEVENS. Would it be possible for you to advise us as to the facts of the case, whether it was a vote of the exchange or a vote of the board of directors?

Mr. GOLDMAN. I suppose our records would show it.
Doctor STEVENS. Would you advise us in regard to that matter?
Mr. GOLDMAN. Yes, sir.
Doctor STEVENS. Thank you very much.
The CHAIRMAN. Mr. Jenks, are you ready? Mr. Jenks, I understand, is pro on this. You rather favor some modification?
Mr. JENKS. Mr. Chairman, I am not prepared to make a statement, but I stated I would be very glad to answer any questions.
The CHAIRMAN. I know that is true, and that is very agreeable to us.
Mr. JENKS. My name is William P. Jenks, of New York.
The CHAIRMAN. Dr. Stevens, you do the talking.
Mr. JENKS. I would like to say at the outset that I am in favor of extension of delivery of cotton against a New York contract to southern ports.
Doctor STEVENS. Mr. Jenks, in the event that such a system were adopted, would you favor the deliveries being made at a differential under the New York price?
Mr. JENKS. I would.
Doctor STEVENS. Would you tell us why you do so?
Mr. JENKS. The reason is pretty well expressed by the reasons given by some of the former speakers. If the ports were put on a parity with New York, so that cotton delivered at those places would be delivered at the same price as New York, I fear that tenders might have a depressing effect on the contract, which I would not want to see. If a proper differential were made, and I think a proper differential would be about the freight and charges from the port to bring cotton—if that differential were made, I think tenders, even in large quantities, if made (and I do not think they would be made), would not have a depressing effect on the contract. That is my reason. My idea is to arrive at a contract fair to all.
Commissioner THOMPSON. What is your business?
Mr. JENKS. My business is a cotton broker. I have had some merchant experience also, but I am not a merchant at the present time.
Doctor STEVENS. What would be your basis for determining the point[s] that should be selected for delivery on southern warehouse delivery?
Mr. JENKS. I am not sure in regard to that, what points I might favor eventually, inasmuch as any change in delivery would be a radical change, and inasmuch as I think everything of a radical nature should be tried out gradually before being put into effect. I would select ports only to start on. The ports that I favor, provided the laws of the States would not interfere with such delivery, and provided the warehouse facilities were adequate, would be the ports of Norfolk, Savannah, New Orleans, Houston, and Galveston. I do not wish to take the attitude that other ports or points could not be included at some later date, if desirable, and if this should work.
Doctor STEVENS. In other words, then, you would say that there is no inherent difficulty in using interior points as well as port points?
Mr. JENKS. I think it would be very inadvisable to start with interior points, because it would make a very complicated system somewhat difficult to work out, and I would prefer to try this in a very simple form at first, and I would start with ports as a very simple form.

Doctor STEVENS. Would that be less true if you had no differential?
Mr. JENKS. Do you ask me that in regard to simplicity, or what?
Doctor STEVENS. Yes. I mean, would there be less difficulty in working out a system for interior points if there were no differentials under New York?
Mr. JENKS. I do not think an interior system could be worked out properly if there were no differentials.
Doctor STEVENS. What system of differences would you use in the event that southern warehouse delivery were employed, the same as at the present time, or a different system?
Mr. JENKS. I see no reason for changing the present system.
Doctor STEVENS. You would not favor, then, the establishment of the widest differences in the grades above middling and the narrowest for grades below?
Mr. JENKS. I think that subject is one worthy of consideration, but I am not prepared to say that I would favor it. I am rather inclined to favor the present system employed.
Doctor STEVENS. Would this system, if it were installed, require any particular extension of warehouse supervision at the southern points?
Mr. JENKS. I think it would. I am sure it would.
Doctor STEVENS. Do you consider that that would be an obstacle in the way of the introduction of such a system?
Mr. JENKS. I do not. I believe that that could be safeguarded. The safe warehousing of cotton in the South could be both safeguarded and insured.
Doctor STEVENS. It has been contended that a system of southern warehouse deliveries would afford a great deal of difficulty in the matter of financing satisfactorily. Do you consider that that view is correct?
Mr. JENKS. That would depend upon whether I am correct in my statement of safe warehousing. If I am correct in my assumption and belief that warehousing in the South can be made thoroughly safe and insured, there should be and I believe would be no difficulty in financing that cotton by any banks in the United States.
Doctor STEVENS. If you used such a system, would you prevent squeezing of the near positions that now occur [s] quite frequently in New York, or that are said to occur quite frequently in New York?
Mr. JENKS. In answering that question, rather than use the word "squeeze," I had rather use the words "position in New York going as to unnatural premium or discount." I think that nothing in short crop years can prevent at times the near positions going to a premium, but I believe if such a system were adopted, it would prevent an unnatural premium or discount of the near position.
Doctor STEVENS. *Would there possibly be* [would it be possible for] a merchant who has sold hedges, to carry these hedges into the delivery *market* [month] or at least *treat* [close to] the delivery *market* [month] with a greater degree of *support* [safety] than he could at the present time?
Mr. JENKS. I believe it would.
Doctor STEVENS. Would the adoption of southern warehouse deliveries remove a certain amount of the hedge selling pressure on the

distant months *by new exchanges*, [now existing] owing to the dislike of the average individual to sell short in the near months?

Mr. JENKS. I do not know that I understand that question. I think broadly it would facilitate hedging.

Doctor STEVENS. My point, Mr. Jenks, is this, that as we have been advised of the situation, most hedging sales are placed in the distant months.

Mr. JENKS. Most hedge sales?

Doctor STEVENS. Most hedge sales are placed in the distant months, because people do not dare to sell the near months, on account of a fear that the price will go, as you suggested, to an unnaturally high level in those near months.

Mr. JENKS. Yes.

Doctor STEVENS. What I would like to find out is whether or not, if you had southern warehouse delivery, you would not remove a considerable amount of that hedging pressure on the disant months; in other words, if the people would tend to sell the near month more frequently than they sell it at the present time?

Mr. JENKS. I understand the question now. They would sell the near positions more frequently.

Doctor STEVENS. Now, I would like to inquire, Mr. Jenks, specifically again, although I think you have already answered it in part, as to the matter of bear manipulation. You take the position, as I understand it, that the adoption of southern warehouse delivery would not tend to create any bear manipulation of the market?

Mr. JENKS. I believe it would not if southern warehousing were adopted with a proper differential under the New York market. I make that strong proviso, because I think there might be some if the delivery ports or points were made even with New York.

Doctor STEVENS. Is it your theory that the differential there would be the primary *fact of* [factor in] tending to check that heavy selling or threat to sell?

Mr. JENKS. I do not think there would be very much bear manipulation, due to heavy selling. What you refer to, I believe, as a manipulation, you might be referring more to heavy deliveries.

Doctor STEVENS. The threat of heavy deliveries, I should have stated.

Mr. JENKS. I do not think, if the proper discount were made, that heavy deliveries would be made.

Doctor STEVENS. Do you think that there would be any other checks or any corrections which might be employed to check any possibilities of bear manipulation? For example, would a ten-day *pre* [free] storage period given by the seller tend to prevent heavy deliveries?

Mr. JENKS. I do not see any advantage in that, and I do not think it would affect the deliveries one way or the other.

Doctor STEVENS. Would the specification of grades *of* [or] staple or both and the points of delivery in the delivery notice itself operate to check—well, I won't say to check, but operate to promote equitable trading?

Mr. JENKS. I think specification of point of delivery in the delivery notice should be made.

Doctor STEVENS. At the time the notice is issued?

Mr. JENKS. At the time of the delivery.

Doctor STEVENS. At the time of the issuance of the notice?

Mr. JENKS. Yes; at the time of the issuance of the notice, I should say.

Doctor STEVENS. In other words, five days before the delivery?

Mr. JENKS. Yes.

Doctor STEVENS. Would that same statement apply to both grades and the staples?

Mr. JENKS. I do not think it would be fair to apply it as to grades and staples, for the reason that the deliverer might not always be in a position to state what grades he was going to deliver, not knowing how they would class up.

Doctor STEVENS. In other words, for five days he would have the opportunity to make up his mind as to what he would deliver on the contract?

Mr. JENKS. Not alone that. He would have the time to have the cotton actually classed.

Doctor STEVENS. Yes; and have it classed. Is there any particular interest in the cotton trade from the producer through the trade that you think would be particularly at a disadvantage under southern warehouse delivery? The producer has been referred to here very frequently by a number of individuals as being one party that would be likely to be damaged. We have also heard that the small dealer will suffer very much under southern warehouse deliveries.

Mr. JENKS. On the contrary, I think it would be to the advantage of everyone in making a broader market. As to deliveries to the small shipper at the southern points or ports, I think he would be greatly advantaged by having the cotton delivered to him at a proper difference under New York.

Doctor STEVENS. In other words, he could take up cotton very easily under that system?

Mr. JENKS. He can take it up and ship it to any point in the world to better advantage than he can do if he took it up in New York.

Doctor STEVENS. What would you think would be the general effect of this system on future prices? Perhaps I ought to be a little bit more specific in that. For example, would the value of the contract be likely to increase? Would the relationship of spots to futures change? Would the relationship of the discounts on the near and distant months change?

Mr. JENKS. I do not think with that system in operation that there would be so much variation as there is at the present time between the prices of spots and futures. Under the present system at times the spot markets are slightly under the future prices. At others the spot prices are very much above future prices. I think the variation would not be near so great under a Southern warehouse system of deliveries.

Doctor STEVENS. Do you think the value of the contract would tend to be diminished by virtue of southern warehouse deliveries?

Mr. JENKS. I do not. I think, on the contrary, it would be increased if we had these differentials.

Doctor STEVENS. In other words, what would be your opinion without any differential?

Mr. JENKS. Without any differential, if cotton could be delivered to the ports at the same price that it was delivered in New York, I believe it would lower the price of the quoted quantities.

Doctor STEVENS. The specific advantage of the differential, then, would be a higher-priced contract?

Mr. JENKS. A higher price than if the ports were made flat with New York.

Doctor STEVENS. That is what I mean. What would be the effect of the relationship between the near and distant future months, if any?

Mr. JENKS. All unnatural prices for the near months, as compared with the distant, would be diminished. I differ with some of those who have spoken before me that we would have continued premiums on the distant months. On the contrary, I think still in short-crop years we would have premiums on the near, but I do not think we would have unnatural premiums. I call a position an unnatural premium when it does not bear the true relation to spot cotton. If a position in New York is above the price at which cotton may be bought in the South and shipped to New York, I say it is in an unnatural position. Under the southern warehouse system I do not think that would obtain very often.

Doctor STEVENS. Do you think the producer would be at any particular disadvantage under this system?

Mr. JENKS. I think he would benefit very greatly by the present system.

Doctor STEVENS. By the present system?

Mr. JENKS. I think he would benefit very greatly above or over the present system.

Doctor STEVENS. Would you state a little more specifically, or can you state a little more specifically, how you think he would benefit?

Mr. JENKS. In times when the near position goes to a premium he would be able to get his cotton to market much more quickly. The principal benefit to everyone concerned, however, would be the practical elimination of near positions going to an unnatural premium. That, I think, is a great benefit to the trade, because it does a great deal of harm to people who do a hedging business.

Doctor STEVENS. You think, then, that the chief benefit to the producer and to all other classes would have to rest on the better relationship between spot and future prices?

Mr. JENKS. I do, because I believe that would result in making a more trusted and better market and a fairer market to everyone. If the trader can rely on what he believes to be a fair market, he is more likely to trade than in a market which he thinks is unfair.

Doctor STEVENS. Do you think that such a system might possibly increase the amount of competition in the cotton business?

Mr. JENKS. I think the small shipper would not have so many discouragements as at present.

Doctor STEVENS. And if that was the case there might be an increase in the number of small shippers?

Mr. JENKS. Yes; an increase in competition.

Doctor STEVENS. How would you—or in the event of the adoption of a system of southern warehouse delivery, do you think that it might be preferable to start such a system applying to only one point, for example, in the South, to see how it would work out?

Mr. JENKS. That might be desirable. If I personally recommended this, I think I would recommend two or three places to start with, but not many.

Doctor STEVENS. In other words, only a limited number?

Mr. JENKS. Only a limited number at first.

The CHAIRMAN. Have you finished, Doctor Stevens?

Doctor STEVENS. No; I have several questions more.

The CHAIRMAN. You will have to speed up.

Doctor STEVENS. Should the contract be even running as to grades in the event of southern warehouse deliveries or contiguous, either one?

Mr. JENKS. Provided the single-bale certificates were used, I can personally see no great disadvantage in using the three contiguous grades as applied to any one contract delivery. But I would like to say in regard to that, I think a great many of the shippers, in whom I have confidence, do not approve of that.

Doctor STEVENS. Would you approve of changing the contract so that each one hundred bale lot would be even running as to staple in the event of an even-running contract?

Mr. JENKS. No, I would not. I do not think that would be fair.

Doctor STEVENS. I mean, of course, under the southern warehouse-delivery system.

Mr. JENKS. No; I would not approve of that.

Doctor STEVENS. Do you think that the New York Cotton Exchange can install a system of southern warehouse delivery without a change in the existing law?

Mr. JENKS. I am inclined to think it could be done, but I would not like to answer that question without consulting counsel.

Doctor STEVENS. Mr. Jenks, there have been several occasions on which the New York Cotton Exchange has considered the plan of southern warehouse delivery. We have in our files several reports made by several committees. Has there ever been an instance where this has come *through* [to] the formal vote of the exchange?

Mr. JENKS. I am not able to answer that question—not that I do not desire to do so, but I do not know. I do not remember.

Doctor STEVENS. You have no idea, then, whether it just dropped out of consideration, or whether there was some formal action taken?

Mr. JENKS. I do not remember. I think others of the New York contingent could answer that question.

The CHAIRMAN. Somebody told me that Mr. Latham could answer that question.

Mr. LATHAM. I am here, but I am unable to answer that. Mr. Cone might answer it.

Mr. CONE. I am not sure, but I am almost sure, that in 1906, when this was first brought up, it was not voted upon. It was brought up again in 1918, and at that time it was not voted upon. It was brought up again last year and considered by a committee, and they decided so unanimously against it that it was not put to a vote then.

Doctor STEVENS. I would like to ask just one question of Mr. Cone. Mr. Cone, could you tell me whether or not the question of the satisfactory or unsatisfactory character of southern warehouses had anything to do with the failure of the New York Cotton Exchange to act on southern warehouse delivery?

Mr. CONE. In 1918 the committee of which I was a member at that time ran up against one stumbling block, and that alone decided them against it, and that was at that time, as I recall it, low middling in New York was some three hundred points off, and at that time

low middling in Texas interior points was some five or six hundred points off, and we were afraid at that time that a delivery from Galveston, we will say, would have such a depressing effect on the contract that it would take our contract down certainly this distance between the New York price of low middling and the price in Texas, so we dropped it.

Doctor STEVENS. Do you know what happened in 1904?

Mr. CONE. 1904, or 1906?

Doctor STEVENS. 1904. It does not make any difference, perhaps. There were about four different recommendations right along there, all in favor.

Mr. CONE. Reports from whom?

Doctor STEVENS. By the various New York committees.

Mr. CONE. The first committee lasted two or three years, as I recall it. Mr. Maury, I think, was chairman of that committee, and I am not sure at that time, but I think it was brought down to a vote of the members, but it was discarded by a vote of the members.

Doctor STEVENS. Do you know whether or not it was dropped because of the fear that the southern warehouses were not financially sufficiently responsible, and so forth?

Mr. CONE. The committee of 1918, of which I was a member, *adopted* [dropped?] that for the reason I have just given.

Doctor STEVENS. But as to these others?

Mr. CONE. I do not know.

The CHAIRMAN. Gentlemen, I want to call on Mr. Johnson, Mr. Blalock, and Mr. Henry, and Mr. Marcus. Are you gentlemen here? If you are, please raise your hands.

Mr. HOWARD of Atlanta. Mr. Blalock is here.

The CHAIRMAN. Do you want to speak, Mr. Blalock?

Mr. BLALOCK. No, sir. I think Mr. Howard has covered the ground all right for us.

The CHAIRMAN. How about Mr. Henry?

Mr. BLALOCK. Mr. Henry is leaving to-night. He has gone and I do not think he will return.

Mr. HOWARD, of Atlanta. I would like to make a thirty-second statement in regard to what Mr. Marsh said awhile ago, as to the political activities of his farm organization. I wish to say that our cotton operators are essentially nonpolitical. We are absolutely a business enterprise, so much so that the by-laws of some of the States, possibly all of them, provide that if one of the directors of that State runs for political office or accepts a political appointment, he automatically ceases to be an officer. I wish to make that statement because we are absolutely out of politics and are a purely business organization.

The CHAIRMAN. Mr. Blalock, there will be opportunity here to-morrow morning if you wish to go on. Would you like to address the commission for a few minutes?

Mr. BLALOCK. If I am here to-morrow, I would like to.

The CHAIRMAN. We would be mighty glad to hear you. If there are others who want to address the commission on this subject, there will be opportunity to-morrow morning. I have got down here, and we want to hear from and to thank them for their patience, Mr. Cahill and Mr. Fink, and we would like to hear from Mr. Latham, and finally I would like to hear myself, as a kind of a drop-curtain

performance, Mr. Clayton again, who opened this thing, and he has only been given thirty minutes and he has been antagonized and opposed here to the tune of several hours. Are there any other gentlemen who would like to be heard to-morrow? If so, I will put them on this list. I want to again emphasize the fact that anyone who wants to speak we want to hear.

Mr. HOWARD, of Atlanta. We have heard from a great many people here, and I believe only one spinner. Here are Mr. Blanchard and Mr. Johnson, both large spinners.

The CHAIRMAN. I am getting ready for Mr. Johnson. I am setting this stage for him.

Mr. FINK. I do not expect to say anything.

The CHAIRMAN. If you are here to-morrow morning, you are liable to be drafted.

Mr. FINK. I am going to leave to-night. I want to be honest with you.

The CHAIRMAN. Don't you expect to be here to-morrow?

Mr. FINK. No. I represent the New Orleans Cotton Exchange, and we have had our spokesman make statements. However, if Doctor Stevens wants to ask me any questions, I would be very glad to answer them.

The CHAIRMAN. I won't allow him to do it now, because this is Mr. Johnson's time. If you are not going to speak, we will drop you off of this list. That leaves Mr. Cahill, who had the first opportunity to speak, and I would not permit him, and Mr. Latham. Are you going to be here to-morrow and do you want to speak?

Mr. LATHAM. Yes, sir. I always do.

The CHAIRMAN. All right.

Mr. FINK. Mr. Chairman, I would like to amend my remarks by saying I would like to ask a few questions, perhaps.

The CHAIRMAN. All right; we will permit you to do that. We will now take a recess for about five minutes.

(Thereupon a short recess was taken.)

The CHAIRMAN. All right, Mr. Johnson.

ADDRESS OF MR. ALLEN F. JOHNSON, OF LYNCHBURG, VA.

Mr. JOHNSON. I wish I knew enough to occupy thirty minutes. I am afraid I can tell you all I know in a good deal less time.

The CHAIRMAN. You never could do it.

Mr. JOHNSON. I am Allen F. Johnson. I will talk for the National Council of American Cotton Manufacturers. The council is composed of representatives from the National Cotton Manufacturers' Association, which is commonly called the New England Association, and the American Cotton Manufacturers' Association, commonly called the Southern Association. It has been decided that I should speak for both in the interest of economy of time, not because I can do it any better than the other fellow, if as well. Mr. Blanchard [is] here a representative from the National Association, and if there is any question which I do not cover, I hope he will be given the opportunity to cover it.

The CHAIRMAN. Who is that?

Mr. JOHNSON. That is Mr. Blanchard. If I do not cover, he will be given the opportunity to cover.

The CHAIRMAN. Are you going to be here to-morrow, Mr. Blanchard?

Mr. BLANCHARD. No, sir; I have to go back to-night. Mr. Johnson and I have talked it over, and his views, I am sure, will represent us.

The CHAIRMAN. That is good.

Mr. JOHNSON. First, Mr. Chairman, I ought to state that I regret that there was any difference of opinion between the cotton spinner and the cotton producer on this floor. As spinners, we heartily concur in everything that Mr. Ches Howard had to say. In fact, we might say that Mr. Howard's statements all represent the statements of the spinners. There are not any points that I know where we differ from him. Mr. Gordon, representing another branch of the Farmers' Association, of course is very much interested in the difference between the grades of cotton, and he made a statement which Mr. Cramer did not agree with him about, and I think it was more because they did not understand each other than that there was any real honest-to-goodness difference between them. As I see it, it is not that the lower grades are necessarily depressed, not necessarily so anyway, but on account of the larger demands for the higher grades, they pay more for the higher grades rather than less for the low grades. Thus the low grades seem neglected by the spinner or consumer, and then the lower grades of cotton have to find a market of their own.

To take an extreme case, middling inch cotton goes into sheetings, print cloth, and fabrics of that kind, which demands middling and better cotton to give the quality which the purchase demands. That leaves, then, the lower grades neglected, so far as that spinner is concerned, and certain other uses will be looking for that lower grade at a differential, we will call it mop yarn, which demands a very much lower price. Then the mop yarn people will take that low grade, but they will necessarily have to take it at a lower price than middling full inch cotton to go into that use.

Now, I think what Mr. Jordan was arriving at was there ought to be a way so that a spinner could use the lower grade cotton without the big differential. I mean that lower grade can be taken care of if the spinner equips himself to handle the lower grade. A spinner can use low middling cotton where he normally uses middling cotton, but he will have to have special machines to raise the grade of that cotton to middling grade before he can use it. Then he will have the expense of the machinery, operation, upkeep, and investment. He will have the expense of the labor for raising the grade of that cotton or processing it, and he will have a large expense at the present price of cotton in the waste he takes out of it.

Only last week I was very much interested in the differential between grades, to know if there was a proper differential, say, between middling cotton and strict low middling, and to test it out I got a bale of strict low middling cotton and put it through two machines which we have in the mill, and besides the expense of the two machines and the operation of those two machines we took out 3 per cent waste.

The CHAIRMAN. What is that machine?

Mr. JOHNSON. That is a machine that we call a vertical opener. It is a machine you put the cotton through the first process to raise the grade and eliminate the waste.

The CHAIRMAN. Is it equivalent to carding in wool? Do you eliminate short staple and put in long staple?

Mr. JOHNSON. It is meant to eliminate the foreign matter.

The CHAIRMAN. The foreign matter?

Mr. JOHNSON. It is the foreign matter which makes it go into a low grade. We put this bale of strict low middling cotton through the vertical openers, and we did raise it to middling grade.

The CHAIRMAN. With a loss of 33⅓%?

Mr. JOHNSON. No; not 33⅓%, but 3%. If it had been low middling proper, we would have taken out 6% probably to make middling out of it. But we did raise it from low strict to middling by taking out the waste. That means ninety points, nearly a cent a pound, to raise it one grade, and it means ninety points plus the cost of those machines, the depreciation on the machines that did the work and the power and labor of operating those machines. So it took much more than ninety points to protect us, and then some more points for us to make a profit.

Mr. FINK. May I ask what the waste in middling is?

Mr. JOHNSON. There is no definite waste. I told you I took 3% out of a bale of strict low middling to make middling. That happended with a lot of cotton that was put through a certain gin, God knows where the gin was, and that gin left 3% more in there than it should have.

Mr. FINK. You take a five hundred pound bale of middling and five hundred pound bale of strict low middling and a five hundred bale of low middling, what is the waste in middling and what is the waste in strict low middling and what is the waste in the low middling?

Mr. JOHNSON. I have told you some up-to-date figures on one particular bale, and I think that would hold true with most low middling cotton.

Mr. FINK. Middling would not be compared. It would be 100%. I mean, you must have some waste in middling.

Mr. JOHNSON. Of course. I do not want to get into any particular point, unless it is pertinent to this. That is a branch which I do not think you intended to go into, and we did not intend to get into it.

The CHAIRMAN. You may not have had parliamentary experience, but when a speaker has the floor it is up to him whether he is to be interrupted or not, and that is one of the few things in the world to which a man is really entitled, that he has the option to be interrupted or not, when he has the floor.

Mr. JOHNSON. I will answer any questions which I think are pertinent to the discussion.

The CHAIRMAN. That is wholly within your discretion.

Mr. JOHNSON. I brought this up to show that we wanted to be in cooperation with the cotton grower. Our interests are the same. I hope the cotton growers who are represented by Mr. Jordan and Mr. Howard feel that way about it.

Mr. Chairman, we are interested as spinners in overcoming some of the evils which have confronted us, especially in the last two or three years. The first is wide fluctuations in cotton. If that can be overcome, and we feel that there ought to be some way to overcome at least a part of those wide swings, so that the line of prices will run more uniform throughout a given season, rather than up and down and up and down again.

The CHAIRMAN. It has been unusually high in recent years, has it not?

Mr. JOHNSON. It has.

The CHAIRMAN. Of course, we know war conditions and European conditions, and so forth and so on, but what has been the matter with cotton?

Mr. JOHNSON. We understand that there must be variations in price between one season and another, but we have had some wide swings in sixty or ninety days.

Commissioner NUGENT. How do you account for it?

Mr. JOHNSON. The spinner can see nothing to cause those wide swings.

Commissioner NUGENT. What is your opinion as to the cause of it?

Mr. JOHNSON. I will come to that a little later. My opinion is that the futures market as it now functions must not function to the interests of those it was set up to serve; that is, a cotton seller, the middle man, and the cotton consumer. As it is now operated, somebody must have an advantage there, and I am sure it is not the spinner.

The CHAIRMAN. Who does have the advantage, and where is the advantage?

Mr. JOHNSON. I could not tell except in extreme swings, where these so-called squeezes occur. Of course, it is the man who is bold enough and big enough to get in on the squeeze. If there is any way to overcome this wide swing, the spinner is very much interested in having whatever change in the rules and regulations can be done to overcome those wide swings. I know that is a big problem.

The other disturbing element to the spinner is the habit the New York futures market has gotten into in the last few years of the near months going to a dangerous premium. That premium is scary to the spinner. It is a disturbing element to the spinner. It disturbs the equilibrium of the buyer of our products. It upsets his attitude, so that he does not know what to do, and I do not blame him much. I can see the buyer's viewpoint and they see ours; but when these near months are going to these high premiums, he sees the quotations, and we all see them, and he sees the near months at quite a premium and the far months at a discount, and it does not take them very long to decide, "Very well, I will buy whatever I need for this shipment," and by waiting he will get his business based on the future month's price, which is a lower price and a saving to him. He saves interest and also saves in price.

Mr. CRAMER. You are talking about the cotton goods buyer?

Mr. JOHNSON. Yes.

Mr. CRAMER. The public?

Mr. JOHNSON. The middleman, the wholesaler and the jobber and the ultimate consumer. It applies to all of them. That premium for near months has operated almost disastrously to certain spinners who took a try. I know a spinner who has been in the habit years ago of buying his spot cotton in the fall of the year and the farmers were willing to sell it and insisted on selling it, and he got the grade he wanted and put it in the warehouse and sold futures against it. That worked in the old days, and he was a very wise man for doing it in the old days. But the time came when it did not work, for some reason. I do not know what the reason was entirely, either by law or the rules of the cotton exchange. The time came when it did not work as heretofore, and he lost in transferring his hedges from October to December. He lost more in transferring from December to March, and he sustained another loss when he transferred such then as he did transfer from March to May, and his loss was considerable, and he tried to do a legitimate business and using the New York Cotton Exchange as an insurance against loss.

The CHAIRMAN. It did not insure it?

Mr. JOHNSON. The hedging did not insure it. The hedging on the New York Cotton Exchange did not insure it.

The CHAIRMAN. Look here, Mr. Johnson, you are a business man. I wish you would give me your explanation of something that was asked here before, and nobody answered it yet that I have heard. If the bulk of the cotton produced in the United States is marketed in the forepart of the year, the twelve months succeeding the harvesting of the crop, then at the end of the twelve months' period or as the twelve months' period nears its end, there must be a shortage of cotton supply that ought to reflect itself in the cotton deliveries for those later months of the twelve months' period. It was stated here that it did not do anything of the kind, that the distant months were showing quotations than the near and the premium month. What is the explanation of that? It is easy enough to see that the latter part of the twelve months' period is based upon the acreage of prospective yield. That is one factor, of course, but that can not be the whole factor, it seems to me. What is the answer? Is somebody monkeying with this proposition, or is this a natural law?

Mr. JOHNSON. Absolutely. I think things have happened that could bring that differential into play to a great extent, and it should be brought into play. I think a review of what happened between May and July and October last year will bring out the point you want answered. May and July contracts as they rolled around were—I mean originally, they were at a discount. When May became a spot month, it went to a premium, and later when July became a spot month, it went to a premium. The thing we are discussing is, why is it that the near months are at a premium and the far months are at a discount. That is what I would like to ask here. It is true, though, and we must do something to overcome it. We all have our ideas about it, and I think if you get the opinion of the various interests represented here, then you can analyze it better than any one man in the country or in any one part *in* [of] the country.

The CHAIRMAN. We asked that question, but we did not get any answer.

Mr. JOHNSON. The fore months being at a discount and the near months being at a premium, the reason October and December, the new crop months, were depressed, was brought about very largely by our departments here in Washington, more largely than any other thing that I know of.

The CHAIRMAN. How?

Mr. JOHNSON. Well, the Agricultural Department called a meeting of experts to meet in Washington, along about March, as well as I remember—some twenty of those experts—and they went into a discussion of conditions with the department, and worked out what the farmer intended to plant in cotton.

Mr. CRAMER. How many farmers on that lot of experts?

Mr. JOHNSON. I am going to come to that. How they knew the farmers would plant 12½% increase in acreage I do not know, and I have not been able to find out, but still these experts said that the farmers would plant an increase of 12½% in acreage. Candidly, I do not believe that the farmers ever did plant a 12½% increase in acreage, and did not intend to do it, although there was an increase, and when you analyze the personnel of these experts who said there would be 12½% increase in acreage, you can understand it did not mean anything. All of those twenty experts who came to Washington—there were three who were appointed a subcommittee on cotton. Only one of them was in the cotton business. The other two were in entirely different businesses. One was in the cotton business in a State far removed from the cotton belt, and how anyone on that committee, let alone the three on the committee, could know how my friends the farmers down South would increase their acreage in cotton 12½% I have not been able to dope out.

The CHAIRMAN. They were dead right on their guess that there was an increase, but it was not the 12½% that you speak of.

Mr. JOHNSON. It is now reduced to 7.

The CHAIRMAN. Yes. Then what followed after that?

Mr. JOHNSON. All right, we are going to plant the world in cotton, and therefore nobody wanted to buy. It went back, and it lagged to a point where the speculator, who was smart enough, would buy at the same price, and I think it was the speculator who prevented cotton from going very much lower than it would have gone. I have no fight to make on the cotton exchange especially, and none of those I represent have any fight to make on the cotton exchange as a cotton exchange.

As far as the Lever bill was concerned, I think that is largely an instrument that was worked out in cooperation with the spinners. They approved the Lever bill as being the best thing that they could advocate at the time it was passed, and we have no fight on the Lever bill. Undoubtedly the Lever bill was the best thing that could be passed at the time it was passed. If my memory serves me right, and I know the gentlemen from the New York Cotton Exchange will correct me if I am wrong, when that bill was up for passage it was opposed by the New York Cotton Exchange. It was advocated by the spinners. The bill was passed in spite of their opposition, and after it was passed they found out the way it worked out it was the best thing that could have been enacted in the interests of the cotton exchange itself, although they had opposed it and said it would ruin their business.

I am sure that the volume of business done by the New York Cotton Exchange since the passage of the Lever bill will bear out my statement that it helps them more than it hurts them. Still, there is something wrong with the exchange as now operated—not only the New York Cotton Exchange, but the other exchanges, and I say that on authority. I would like to quote this, which intimates it very strong, in a paragraph I would like to read here, which information I got from a rival authority here in Washington, quoting Sir Charles Macara, the most eminent cotton spinner in England and perhaps

in the world. He has been in the business all of his life and is getting to be an old man:

> For every bale of actual cotton grown, twenty-seven bales are gambled with. That is where the leakage is. The cotton grower and the spinner are making the sacrifice, while the gamblers walk off with the loot.

The CHAIRMAN. Who said that?

Mr. JOHNSON. Sir Charles Macara, the largest spinner in England and perhaps one of the largest in the world. He evidently thinks there is something the matter with the cotton exchange. I can not say that I agree with him entirely, because I do not know that there is twenty-seven gambled with for every one raised.

The CHAIRMAN. That is the authority you intended to quote?

Mr. JOHNSON. Yes.

The CHAIRMAN. You were not going to quote any Washington authority?

Mr. JOHNSON. Sir Charles was quoted by an authority here in Washington.

The CHAIRMAN. That is what I was asking for.

Mr. JOHNSON. By an authority here in Washington. We have no cut and dried remedy for the ills from which we suffer. We would like to see remedies worked out and applied, we would like to lend our best efforts to doing the needful to better conditions, but as I say, we have no definite idea of what the patient needs.

As far as the New York contract is concerned, we would not be in favor of changing the number of grades tenderable. Our association has no wish to change the grades tenderable.

The CHAIRMAN. Or the manner of tendering them? What about that three contiguous proposition?

Mr. JOHNSON. Our reason for opposing any change in the number of grades tenderable is, while personally I would like to make some changes, I realize that these changes might make the New York contract so narrow it would not function properly, and hence it would affect the contract. Therefore, I dare not suggest any material change in the grades tenderable, because it has a mission to perform. The speculator who operates on the exchange is a needful part of a system, and as I said just a minute ago, but for the speculator, I think cotton would have gone much lower last spring for the fall crop delivery. There are times when the cotton goes too high, and the speculator will serve a ceratin purpose in selling it when it gets too high. Therefore, the service of the speculator is to study the line of price, and we dare not make a contract so narrow that the speculator won't use it in carrying on its natural function.

The CHAIRMAN. Why don't you use section 10 for your buying to protect yourself?

Mr. JOHNSON. I think you will have to refresh me on that section.

The CHAIRMAN. If you do not know about it, I won't press it on you.

Mr. JOHNSON. I do not know it by sections; I have not studied up on it. We use the exchange in every way we know how to use it. We would like to use it a great deal more than we do. These squeezes on the near positions make some of us hesitate very much before we use it. I know cotton merchants in the Cotton Belt who are accustomed to using the exchange, but some of them have hinted to me

that they are afraid of hedging in the near positions, and [in] the distant positions can not hedge. All the merchants say that if they do straight hedging they would never come out whole. Hence they have to resort to protecting themselves as best they can, which all goes to show that there is room for improvement in the New York Exchange contract.

As regards our thought for correcting the evils, we do not know of anything better than to make cotton tenderable outside of New York, to make it more nearly a buyer's contract, or a contract that the spinners could use to better advantage. I do not see that there is any economic reason why cotton should go to New York to be tendered on contract when every bale of it has ultimately got to go to the spinner, and there are no spinners in the New York territory, or very few. I think it is economically a loss of motion, and this economic loss ought to be avoided.

As spinners we can see no objection to making cotton tenderable at designated points in the southern Cotton Belt. We can see no objection, and it is our opinion that a New England spinning point should be one of the points. They consume a great deal of cotton in New England. I think the statistics show that they consume probably two and one-half out of the five and one-half million bales, roughly, anyway, and I do not see why one of the tenderable points should not be in the New England territory.

The CHAIRMAN. Would you hang a differential on those points?

Mr. JOHNSON. Frankly, I am not prepared to work out that question of differentials. I suppose that will be worked out very much as insurance companies work out rates and things of that kind.

The CHAIRMAN. How does the principle of the thing strike you?

Mr. JOHNSON. It looks to me, however, if you ask me offhand for my opinion, it is something to shoot at anyhow. I think cotton delivered at a port point ought to constitute delivery, without a differential, because a port is a gate to the world, just as New York is a gate to the world, and if it is delivered to an interior point there should be a differential to the nearest active port, which is the gateway to the world. I have not given very much thought to this, but it sounds reasonable to me, and it is at least something that you could shoot at.

The CHAIRMAN. Well, there would be a whole lot of shooting if that went into effect.

Mr. JOHNSON. Representing the spinners' association, we believe in taking some action to bring about greater parity between spots and futures; that is, a more desirable parity, and stop the variation, and should lessen the danger of manipulation through delay in delivery of the cotton. We believe that the certification of cotton, the delivery against the contract, should be allowed at points outside of New York, designated Southern points, and one or more New England points, at least one New England port.

Mr. McFadden stated this morning that the quotations on forward months over the spot months did not affect the spinner. I want to take exception to that statement of Mr. McFadden's. I think I have already partially answered that. When the near months are a large premium over the distant months, It automatically blocks business for forward delivery. We could do a spot business, but we can not sell our goods to be delivered every three, six and twelve

months as we can at the time when the cotton is in its natural position, where the more distant months have a differential higher than the spot months, by the carrying charge.

Mr. CRAMER. And that is necessary because we make seasonable sales of goods?

Mr. JOHNSON. It is absolutely necessary that we take forward business, because, as Mr. Cramer says, seasonable goods—and then no cotton mill can be economically operated unless it takes forward business and can allow its machinery to be operated over a period of at least months, preferably years.

The CHAIRMAN. Doctor Stevens, do you have any questions to ask?

Doctor STEVENS. Yes, I would like to ask Mr. Johnson one question, and that is this, on the point of premiums and discounts. If I understood you correctly, your point was that you could not conduct your business satisfactorily because of the premiums on the nears as compared with the distants, when the distants were at a discount.

Mr. JOHNSON. Yes.

Doctor STEVENS. Several persons have said that the reason why there are premiums on the nears and discounts on the distants is because you people, instead of buying for the year—in other words, you will only buy for immediate delivery and you won't buy for *fall* [forward] delivery, and therefore in consequence the price of the near months rises.

Mr. JOHNSON. That may be partially true to-day, because the spinner has been squeezed so many times in the last year or year and a half on buying for *fall* [forward] delivery, that he has no other option but to live from hand to mouth. That was not true a year ago, because in September and October a year ago there was more cotton sold for *fall* [forward] delivery than any year in my knowledge. The spinners bought more for *fall* [forward] delivery than any year in my knowledge.

Doctor STEVENS. You say, then, that the spinner is not really responsible for the premiums on the near months and the discounts on the distants?

Mr. JOHNSON. Absolutely no; we are the victims of the system.

Doctor STEVENS. One other question I would like to ask. Have you any fear, if a southern warehouse delivery system is put into effect, and regardless of whether there is a differential or not, that there is going to be bear manipulation, pushing down of prices, decreasing the values of the product?

Mr. JOHNSON. I do not think there would be any bear manipulation. I think it would have a steadying effect, where the peaks would not be as high as they are at the present time.

Doctor STEVENS. Is it your opinion that the spot and future prices would move together, that the relationship of the two would be better and more satisfactory if you had southern warehouse delivery, than they are at present?

Mr. JOHNSON. I do. I think spots and futures, the futures more nearly reflect the true situation than anything else.

Doctor STEVENS. Do you think that the discounts on the distants would tend to narrow—in other words, would there be less difference with southern warehouse delivery, than there is at the present time?

Mr. Johnson. I think so, because the spot market could be used more as a hedge than it is now. I think Mr. Cone covered that point. Now, the spot market is not used by the hedge seller, because he is afraid of it; it is dangerous, and that would remove the danger, and hence the spot market would be used more as a hedge than it is now.

Doctor Stevens. And that is one of the reasons you favor southern warehouse delivery?

Mr. Johnson. Yes.

Doctor Stevens. That is all. Thank you.

Mr. Glenny. Before we adjourn, Mr. Chairman, you made a statement just now relative to the 50 per cent cotton used in the first few months and still with large discounts. We do not use 50 per cent of the cotton. We market 50 per cent of it.

The Chairman. That is what I meant, that it is marketed.

Mr. Glenny. There is the difference. The cotton is still in existence, and being carried through the medium of the cotton futures contract. It is not out of existence. It is still in existence, and it is available for the distant markets when the time comes to use it, or for the spinner.

The Chairman. Then it is resold. It is again on the market.

Mr. Glenny. It is still in existence. You only consume two-twelfths of it in two months, and you do not consume six-twelfths.

The Chairman. But at the end of the twelve months you have less total crop.

Mr. Glenny. Provided the other crop is not moving. There is one other thing I want to say and that is just this, that the New Orleans Cotton Exchange favored very strongly the Smith-Lever bill.

The Chairman. Yes. Then I want to ask if Mr. Harvie Jordan is here. If he is, will he raise his hand?

Mr. Jordan. This is what is left of me.

The Chairman. Somebody has misspelled your name and I was afraid we were missing something. Now, Mr. Marcus of the Texas Cotton Association, is he here?

Mr. Marcus. Yes, sir.

The Chairman. Do you want to be heard?

Mr. Marcus. I regret to say that I am in rather an embarrassing position. I came here representing the Texas Cotton Association, and our association seems to be so hopelessly divided on the questions at issue that I would feel embarrassed to speak for them. I can not represent both sides, but I could make a personal statement for myself.

The Chairman. Are you going to be here to-morrow morning?

Mr. Marcus. Yes, sir.

The Chairman. You will be heard. There is no law in the United States to prevent a man expressing his opinion if the other fellows can not agree. I will put you down. I have Mr. Cahill to-morrow morning, and Mr. Latham says he will speak. Mr. Blalock is thinking about it, and I think the spirit will move him to-morrow, and then, Mr. Marcus, we will have you and anybody else that wants to talk. We do not want to shut anybody off, and in this kind of a meeting it is very possible a man will come here with a speech to make and will want to get it off his chest. If I do not happen to personally know that, that man may go back home and say that he was not given an opportunity to be heard. Everybody that wants a chance will have the opportunity, and I would like to know it now, because I am arranging this thing now so that Mr. Clayton, who opened this up on the pro side of the case and said it in thirty minutes, and for the most part he has been answered to the tune of about fourteen hours, I would like to hear Mr. Clayton at the end of this thing. He has been here making notes, and I would like to hear him say something in rebuttal, and if it is agreeable to him, we will put him on as the steam calliope of this procession.

Then we will start in to-morrow morning at 10 o'clock.

(Whereupon, at 5.10 o'clock p. m., the conference took a recess until to-morrow, Thursday, November 8, 1923, at 10 o'clock a. m.)

Washington, D. C., *November 8, 1923—10 a. m.*

The commission met pursuant to adjournment.

Before Commissioners Murdock (chairman), Thompson, Nugent, and Van Fleet.

In addition to those heretofore noted, the following were also present: R. L. Thompson, Cotton Exchange Building, New York City, representing the New York Cotton Exchange; George Butterworth, East Falls Church, Virginia, representing the Bureau of Agricultural Economics.

The Chairman. The conference will please come to order. There is an additional remark which Mr. Rankin desires to make.

Mr. Rankin. It was not my intention to state that New York is a spot market in the sense that other markets are *when* [where] large quantities are bought and sold every day. But I did wish to convey the impression that New York was a sufficient market to absorb all offerings of actual cotton which might be shipped there either for sale *of* [or] delivery on contract. In other words, I say that New York is a cotton market to the extent that cotton can be shipped there quickly enough from Atlantic and southern ports to satisfy any sales of futures that may be made.

The Chairman. Mr. Cahill, I am going to call on you first. Give your name to the stenographer.

ADDRESS OF MR. THOMAS F. CAHILL, OF NEW YORK CITY.

Mr. Cahill. My name is Thomas F. Cahill, New York, N. Y., and I represent the New York Cotton Exchange.

The Chairman. Mr. Cahill, you came into this meeting when it started and you have been here since at every session and you have heard all the speeches?

Mr. Cahill. Yes, sir.

The Chairman. I suppose you came here with some preconceived notions against the proposition?

Mr. Cahill. Yes, sir.

The Chairman. Have they changed you any with their arguments or caused you to modify them?

Mr. Cahill. In regard to the southern warehouse delivery?

The Chairman. Southern delivery and tenderable grades and the establishment of differentials.

Mr. CAHILL. No, sir; I am even more strongly against it now.
The CHAIRMAN. All three of them?
Mr. CAHILL. No; against the delivery on southern markets.
The CHAIRMAN. I see.
Mr. CAHILL. Shall I go right ahead?
The CHAIRMAN. Yes.
Mr. CAHILL. Mr. Chairman, I have taken some notes as I went along, and day before yesterday Mr. Harriss, the Galveston man, made the statement that Galveston is the largest port in the world. I assume he meant a cotton port.
The CHAIRMAN. He said it was the largest cotton port. He said three million bales; that they handled three million bales there.
Mr. CAHILL. Yes. Now, I want to show that New York is sometimes a cotton port, and I would say that on the 2d of June, 1922, that New York warehouses held a larger stock of cotton than was held in any other city in the country. At that time the stock in New York was 216,000 bales, and at the same time Galveston had 198,000, New Orleans at the same time had 187,000, and at the same time Memphis had 107,000. So at that time New York held more cotton than any other city.
The CHAIRMAN. What period of the year was that?
Mr. CAHILL. June 2, 1922. It just happened that I took note of that at the time, because I thought it was of interest.
Commissioner NUGENT. Was that an unusual thing, so far as New York is concerned?
Mr. CAHILL. It was unusual because we had more cotton than at any other time, and because of that condition I took a note of it.
The CHAIRMAN. You remember that Mr. Harriss did say that they handled three million bales of cotton annually at Galveston, or that they had storage for three million bales?
Mr. CAHILL. Mr. Chairman, I could not say positively what he did say. He may have made the statement; I can not dispute it, I have no record of it. Following along the same lines, I would say that during the period beginning 1906–1907, up to and including the season 1922–1923, the receipts of cotton at New York totaled 19,068,652 bales.
The CHAIRMAN. How much?
Mr. CAHILL. Nineteen million bales. Understand, I do not claim that that cotton was warehoused, but it went through New York. It did not go into storage, but 3,192,062 did go into storage, was certificated and went into storage. During that same period we shipped to foreign countries, out of the receipts, 8,227,946 bales and to northern mills, including Canada, 10,727,611.
The CHAIRMAN. The northern mills; what? You say you shipped out of New York during that time so much [to] northern mills; what?
Mr. CAHILL. To northern mills and Canada, including New England.
The CHAIRMAN. Oh, I understand. I misunderstood you. Mr. Cahill, it is perfectly plain to you as a man who deals in cotton, but my mind is not clear on the subject of what happens to cotton when it arrives in New York. Of course, the thing that happens to it is determined largely by its destination. There must be cotton that comes up through the coastwise trade to New York from the southern ports in ships.
Mr. CAHILL. Yes.
The CHAIRMAN. For transshipment; is that right?
Mr. CAHILL. Yes.
The CHAIRMAN. And are those bales of cotton there compressed, transhipped by lighters from the ships that brought them from the southern ports of the United States to the ocean going vessel?
Mr. CAHILL. Yes, sir.
The CHAIRMAN. Do you call that going through the port of New York?
Mr. CAHILL. I do; yes, sir.
The CHAIRMAN. There must be cotton that goes to New York by rail?
Mr. CAHILL. Yes, sir.
The CHAIRMAN. Does any cotton come by rail to New York for transocean trade?
Mr. CAHILL. I would say sometimes.
The CHAIRMAN. Sometimes?
Mr. CAHILL. Yes, sir.
The CHAIRMAN. So, then, there must be some cotton that comes to New York for delivery to New York for domestic consumption?
Mr. CAHILL. Yes, sir.
The CHAIRMAN. That last item, when it strikes New York either by vessel or by train, has got to be taken care of. What are the warehouse facilities of New York for taking care of that cotton? Where are those warehouses, in the first place—where located?
Mr. CAHILL. All around the port, on the Brooklyn side, Staten Island, Bayway, N. J., and when necessary in the heart of the city.
The CHAIRMAN. How much of a warehouse is a cotton warehouse in New York? What kind of a building is it? What is it made of—brick?
Mr. CAHILL. Brick and concrete, generally, iron and steel; but the outside appearance would indicate brick. I just have a little memorandum here——
The CHAIRMAN (interposing). Before you bring any memorandum in I want to get cleared up on this proposition. In the State of New York who licenses those warehouses?
Mr. CAHILL. In regard to licenses in regard to cotton?
The CHAIRMAN. I understand that in New York delivery is from a licensed warehouse. Is that right?
Mr. CAHILL. Yes, sir.
The CHAIRMAN. Who licenses them?
Mr. CAHILL. The New York Cotton Exchange.
The CHAIRMAN. Licenses them to do what?
Mr. CAHILL. They give them a license permitting them to store what is known as certificated cotton. In regard to a State license, I know nothing about the State license.
The CHAIRMAN. Does the New York Cotton Exchange license for the same purpose a cotton warehouse at Rahway?
Mr. CAHILL. Bayway, I said. Yes, sir, they do.
The CHAIRMAN. Is Bayway in that district counted part of the port of New York?

Mr. CAHILL. Yes, sir; part of the port of New York. Referring to the matter of storage in New York——

The CHAIRMAN (interposing). Is it a part of the port of New York? I asked you if you so regarded it. Is Bayway in New Jersey a part of the port of New York?

Mr. CAHILL. Yes, sir. The customhouse regulations show that it is.

Commissioner NUGENT. I take it that those warehouses are not public warehouses?

Mr. CAHILL. Oh yes, sir; they are public warehouses. We have no interest or control in any warehouse in New York; that is, the exchange has not.

Commissioner NUGENT. Do the men who deal on the exchange exercise any control over the warehouses?

Mr. CAHILL. As far as I know and to the best of my knowledge, I do not think a member of the exchange has any interest in any way, shape, or form in any warehouse in New York. We, as a firm, handle large quantities of cotton, and we have absolutely no interest. That is one of the strong points in our warehouse system in New York, that they are absolutely divorced from our exchange or exchanges.

Now, I have an ad here saying:

> Cotton: Ship your cotton to us direct by steamer, lighter, car, or trainload. 350,000 bales handled during the season.
> Ideal cotton storage.
> Lowest insurance and storage rates. Automatic sprinkler protection. Facilities for handling cotton under cover. Direct all-rail connection. Storage in transit privilege. No car unloading charge. All employees bonded and insured. Value of warehouse receipts recognized by banks. Stores licensed by N. Y. Cotton Exchange. Security, responsibility, and service. Over 50 years' experience in cotton storage.
> American Dock and Pouch Terminals, New York office: 17 State Street, phone, 7950 Bowling Green.

You will see there is just one organization and they say here "350,000 bales handled during the season." Am I too long on this point?

The CHAIRMAN. I think that is sufficient, because I want to ask you this question after you have outlined how it was done. This cotton that moves through the port of New York by transshipment from a coastwise vessel to an ocean-going vessel, there is cotton that comes in there by rail for transmission to beyond the seas' trade and to the cotton mills. There is cotton that goes in there for the satisfaction of future contracts at the date of delivery?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. What I want to get at is this. Is the warehouse capacity of New York entirely adequate for the third purpose?

Mr. CAHILL. For what purpose?

The CHAIRMAN. The third purpose, which is for delivery on future contracts.

Mr. CAHILL. Absolutely.

The CHAIRMAN. All right. How much do you have to have for that?

Mr. CAHILL. The capacity we do not know until we reach that point, and when we reach that point we will get all the space necessary. If the cotton exchange has to hire an office building to store the cotton, they would hire it.

The CHAIRMAN. And license it?

Mr. CAHILL. And license it; yes, provided it met with the requirements.

The CHAIRMAN. Who, in the cotton exchange has the power of extending a license?

Mr. CAHILL. The warehouse committee.

The CHAIRMAN. How many men on it?

Mr. CAHILL. There are seven.

The CHAIRMAN. Have you any knowledge whether or not they are stockholders in warehouses?

Mr. CAHILL. They are not; no, sir.

Commissioner NUGENT. A warehouse can not be used for the purpose of storing cotton unless it is licensed by the New York Cotton Exchange?

Mr. CAHILL. It would not be—just let me hear that again, please.

Commissioner NUGENT. I say, as I understand it, a warehouse in New York is not used for the storage of cotton unless it is licensed by the New York Cotton Exchange.

Mr. CAHILL. No, sir.

Mr. JENKS. That only applies to certificated cotton.

Commissioner NUGENT. You heard a gentleman yesterday state that some time since he was desirous of shipping cotton to New York for the purpose of making tenders, and so forth and so on, or delivery in the fulfillment of a futures contract, but that he was unable to do it by reason of the fact that he could not get storage facilities. How about that?

Mr. CAHILL. I do not think that is a statement of an exact condition, but I will say this, that during the war——

Commissioner NUGENT (interposing). Just before you state that, let me ask you another question.

Mr. CAHILL. Yes, sir.

Commissioner NUGENT. Is it or is it not true that the gentlemen connected with the New York Cotton Exchange who issue licenses to these warehouses, exercise an absolute discretion in the matter and license those which they choose to license and decline to license others which they do not choose to license, regardless of the cotton for which storage is necessary?

Mr. CAHILL. No; if a warehouse comes up to the public requirements they will license it. For instance, they would not want to license a wooden shack or a wooden structure, but if it is under proper control and the fire risk is not too great, there will be no question and no trouble about their getting a license. Shall I go a little further into that subject in regard to the matter of scarcity of warehouse space?

The CHAIRMAN. Yes; I wish you would tell me this. Someone said here during the course of this hearing that there are a million bales of cotton annually which pass through the port of New York. If that be true, and I have no way of disproving it, and I do not doubt it, in any given year, about what is the average amount of cotton used in New York for the delivery of cotton on a future contract? Just approximately, what does it run?

Mr. CAHILL. I have right here exact figures covering exact years. I will go back to 1912–1913, so I won't go back too far.

1912–1913, certificated cotton, 131,626 bales.

1913–1914——

The CHAIRMAN (interposing). Now, wait. That is cotton that has been used in New York for the settlement of future contracts?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. That is correct, is it? I want to get that straight.

Mr. CAHILL. Yes, sir; that is right.

The CHAIRMAN. All right; go ahead.

Mr. CAHILL. 1913–1914, certificated cotton, 156,724 bales.

1914–1915, certificated cotton, 158,738 bales.

1915–1916, 131,340 bales.

1916–1917, war year, complete data not available.

1917–1918, certificated cotton, 93,137 bales.

1918–1919, certificated cotton, 77,960 bales.

1919–1920, certificated cotton, 65,994 bales.

1920–1921, certificated cotton, 144,688 bales.

1921–1922, certificated cotton, 188,201 bales.

1922–1923, certificated cotton, 64,475 bales.

The CHAIRMAN. Mr. Cahill, why was that slump in the cotton used in 1918–1919? It went clear down in one year to 65,000 bales.

Mr. CAHILL. That would be just as hard for me to tell right now, but I will try and show you another table here. In looking back over a period of years, the years preceding the dates which I have just given you, I find that in 1907–1908 we certificated, according to these figures which I have, 63,675 bales, and in 1909–1910, we certificated 785,465 bales. So you see these figures fluctuate. I can not give any reason why. It is due to different conditions. It may be that another year we will handle 785,465, we can not tell.

The CHAIRMAN. Occasionally over here in these delivery months in the New York Exchange Market there is a squeeze?

Mr. CAHILL. We hear there is a squeeze.

The CHAIRMAN. All right. Is that squeeze in the month of delivery? Can it be in the month of delivery?

Mr. CAHILL. I do not like the term "squeeze," Mr. Chairman. I do not like it at all. I do not know just what it means.

The CHAIRMAN. Use some other pleasantly perfumed word. There comes, over in New York, a place in a month of delivery—I am asking you if it does—where the man who has bought the cotton calls on the man who has sold it to deliver, and he does it with emphasis?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. He wants the cotton. He does not particularly care for any trading out of his future contracts by selling it again, or buying it again, but he says "Bring on your cotton." Does that happen occasionally?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. Sure it does. Does that happen in the month of delivery?

Mr. CAHILL. It might happen in any month but usually during a near month, if it does happen.

The CHAIRMAN. In a near month?

Mr. CAHILL. Yes; a near position.

The CHAIRMAN. But as the delivery month approaches, that thing is liable to happen?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. It is quite essential to know this, Mr. Cahill, because it differs somewhat from some other commodities that are

dealt in. The man upon whom rests the demand, has got to get that cotton, hasn't he, somewhere?

Mr. CAHILL. Yes; absolutely he must.

The CHAIRMAN. He has got to get some of Mr. Howard's cotton, and he can not get Mr. Howard's cotton. He has to get some real stuff.

Mr. CAHILL. But Mr. Howard said his cotton was an artificial contract and an artificial market, but it was real cotton.

The CHAIRMAN. But if it is certificated he gets something, and the next proposition is to get it to New York?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. And the Norfolk folks, as we found, are pretty foxy in that. When a man is down in Memphis or Atlanta, it is different. When that actual cotton gets to New York, do you know of any single instance where any citizen of the United States who had cotton to deliver who was under the necessity of delivering cotton, had any trouble in getting warehouse room for his cotton when he got it to New York?

Mr. CAHILL. Not as far as I know, and let me go a little further. There was that time of stress, when the Bush Terminal was taken over by the War Department, and when that plant, the largest of its kind in the world, was eliminated from our port, and there was demand for space, in order to meet the situation the cotton exchange persuaded one of the companies, and it happened to be that the Bush Terminal Company was then coming back into business, into working shape, persuaded them to give them room for 10,000 bales of cotton, and not only did they persuade but they guaranteed the Bush Terminal Company that that warehouse would net them so much per year, in other words, instead of putting in 10,000, or if instead of putting in 10,000 we put in 1,000, we would give them a fee that would pay a yearly rental, or what was equivalent to a yearly rental for that warehouse. Not only that, but the Cotton Exchange licensed a system of warehouses in Jersey suitable for taking care of 25,000 bales at that time. So that really we were paying for space for 35,000 bales, that is, 10,000 and 25,000, and the space was not all needed.

The CHAIRMAN. Then, Mr. Cahill, is this absolutely within the facts? Suppose I sell you some cotton for delivery in January, is there anything on earth except a natural condition that will give you an advantage over me when January approaches on that cotton? That is, I have openly gone into a contract with you, saying, "Now, Mr. Cahill, I am going to deliver you 500 bales of cotton next January. I have got 30 days in which to deliver it; you have five days at the end of the month in which to demand it." It is to be delivered to you at a price, and then, as January comes along, just about the merry time of Christmas, you come along and say, "Now, Murdock, come across with that 500 bales." Is there anything to prevent me from getting those 500 bales to you, except my inability to buy them somewhere? Can I go somewhere in the United States without difficulty and get my 500 bales? Can I then find steamship space or carload space and get it to New York and when I have gotten it to New York, is there a place for me to store it?

Mr. CAHILL. All the time. The question is, is there a place for you to store it?

The CHAIRMAN. How can anybody in the way of a buyer of cotton take advantage of the seller of it, if that avenue is open? How does it come about when there is this thing you shy from, a squeeze?

Mr. CAHILL. Because it is a hard thing to explain what a squeeze is. I will try and illustrate it.

The CHAIRMAN. I wish you would. So far as the physical method is concerned, you say there is nothing in the way of stopping a man from getting the cotton from the South to New York, and there is no trouble about finding storage space in New York when you get it there, and we have gone into this contract with our eyes open; I know I have 30 days to deliver it, and I have no trouble about finding that 500 bales of cotton, and you have five days' demand. There is a little thing in there that I have not mentioned, and that is price. I have contracted to deliver cotton to you at a price. Just now, when one of these situations comes around that we call squeezes, what happens to me?

Mr. CAHILL. You have the cotton sold.

The CHAIRMAN. I am selling it to you.

Mr. CAHILL. Then you will deliver it to me. You have got to, because under our contract, our contract is about as strict a contract as any contract I know. It contemplates delivery in every case, and if you sell me a contract and can not deliver it, you have got to throw up your hands.

The CHAIRMAN. How do they prevent me from doing it?

Mr. CAHILL. They can not, if you have the cotton. You have got to deliver it. It is absolutely compulsory.

The CHAIRMAN. Just how does this thing that they call a squeeze operate against me, the seller, in cotton? Let me see if I can not help you. I have contracted with you last September to deliver 500 bales of cotton next January. The papers are passed. We are fellow dealers on the exchange, getting along in pretty good shape, and I figure that I probably won't have to deliver that cotton; somehow or other I can cancel that out. Is not that what happens to me?

Mr. CAHILL. No, you cannot. If you take that contract you have to deliver it, and if you cannot you have to pay the price. You have to buy it where you sell it. It is an open market. You go and sell 500 bales of cotton, and you know what you are doing when you go in there, and if you sell that 500 bales you agree to deliver it. The whole thing is based on actual delivery, and you cannot get out of it, and if you say to me "Sell me 500 bales of cotton" and I want that cotton, you have got to give it to me. The whole exchange is based on that. It is a contract, and the heart of the contract is the contemplation of delivery, and actual delivery. You cannot get away from it.

The CHAIRMAN. How do I get out of this, because a powerful lot of people who sell cotton on contract over in New York do not deliver cotton? Am I wholly at your mercy if I sell it to you?

Mr. CAHILL. No.

The CHAIRMAN. How do I get out of it?

Mr. CAHILL. You have the privilege of buying it in.

The CHAIRMAN. What is the process of buying it in?

Mr. CAHILL. You go into the ring where you sell it, and buy it. It is the same operation in each case.

The CHAIRMAN. You have switched me from a seller to a buyer.

Mr. CAHILL. Then you liquidate it; you are through.

The CHAIRMAN. Then I have some cotton coming to me in January.

Mr. CAHILL. Yes.

The CHAIRMAN. Then I take the position that the fellow has got to come across with my 500 bales which I have bought.

Mr. CAHILL. Yes.

The CHAIRMAN. All right. Then what happens to me? Let us say it is Senator Nugent here now that has gotten into the game. Senator Nugent has become a seller. Where is he going to get the cotton?

Mr. CAHILL. He is going to buy it somewhere. The Senator will buy it somewhere.

The CHAIRMAN. Oh, no. He will go into the ring and he will make a negotiation in which he becomes a seller.

Mr. CAHILL. He has already made that negotiation.

The CHAIRMAN. Oh, no; he is a buyer.

Mr. CAHILL. Let me have this question again.

The CHAIRMAN. I am trying to find out where the cotton comes into this thing. I can see you and me and Senator Nugent plainly. I can see the absolute necessity of getting that cotton into New York within 30 days in January at a price, but I am trying to find out where the cotton comes from.

Mr. HOGAN. I will give it to him. I understand that all of that cotton comes from Norfolk. I think that New York and Norfolk seem to be both on trial.

The CHAIRMAN. Of course, that is following the thing out, and what I am trying to get at is one of these unusual situations over in the New York market, on a near month or on a delivery month, in which some fellow sitting behind four aces makes the crowd come across. How is it done, I would like to know?

Mr. CAHILL. Mr. Chairman, as far as I know, when you sell a contract of cotton you have got to deliver it, and when you buy it you get it all the time; there never has been a case yet where the cotton exchange has fallen down in its contracts, and by that I mean the membership of the exchange. I do not know of a case yet under any conditions, and under the greatest stress when you buy a hundred bales of cotton or a thousand and you want it, you get it. I have never known a condition otherwise. When I buy a contract I get cotton, just as if I bought a house, I get the house. And I know when I go in there if I buy a hundred bales of cotton or a thousand or a hundred thousand and stand on it and want it, I am going to get it. I have to get it.

Commissioner NUGENT. In what proportion of these future contracts is there actual delivery of the cotton?

Mr. CAHILL. Senator, it would be hard for me to give you the figures.

The CHAIRMAN. Without a microscope.

Mr. CAHILL. I do not think I had better try.

Commissioner THOMPSON. May I ask a question there?

Mr. CAHILL. Yes.

Commissioner THOMPSON. Mr. Murdock said it was 30 days' delivery in this supposititious case of his with you. Is that correct?

Mr. CAHILL. You can deliver between the first and the last days of any month, with this exception——

Commissioner THOMPSON. In the month where your contract is expiring, the last 30 days of the contract? Is that it? Suppose you had a contract to deliver in five months, you can not take any month to deliver in the five?

Mr. CAHILL. You must take a specific month. Assuming that you sold a hundred bales of December, you must deliver during December; if you sell a hundred bales of January, you must deliver in January.

Commissioner THOMPSON. Any time in January?

Mr. CAHILL. Any time in January between the first and the last days of the month, in accordance with the Government regulations. The Government regulations say that we shall issue notices on certain days, but if the 30th should fall on Sunday, then we would have to deliver on the 29th.

Commissioner NUGENT. Excuse me, but have you 30 days in which to deliver after the demand is made on you?

Mr. CAHILL. Oh, no; not after the demand is made. You sell, and you can deliver on either the first of the month or the last of the month, but demand is not made on you until you approach the end of the month. In the meantime, you may have issued a notice for delivery on the first, second, third, and so on, and then you have fulfilled your contract before going up to the end of the month. Then a demand might be made on you, but really it is not necessary to make a demand, for this reason. Under the cotton exchange rules and Government regulations, trading must cease at noon time on the 25th, the last delivery day is the 31st, and notices must be issued within ten minutes, so therefore on your trades, trades existing previous to the morning of the 25th, we must issue a notice and indicate our intention to deliver, and then if we sell up to noon time, on the last trading day, the 25th, within ten minutes you must give notice under the rule. You have got to deliver. Every sale made contemplates the actual delivery of cotton.

The CHAIRMAN. It may contemplate it, but as an actual fact what length of time has a man to deliver after demand is made on him?

Mr. CAHILL. In actual practice there is no demand. You go to work and issue a notice, we will say, under the Government regulations five business days before the last delivery day, or five business days before the first of the month, and there is no demand made on him.

The CHAIRMAN. Let us put it this way. Suppose I would enter into a future contract with you that I would deliver to you 500 bales of cotton on a certain date. Now, at the time I enter into that contract, I do not expect to be called upon to deliver that cotton, and at the time that we enter into that contract you do not expect to call on me to deliver the cotton, and suppose at the expiration of the month you conclude you want the cotton, and you make a demand. Within what period of time after you have made the demand am I obliged to deliver the cotton?

Mr. CAHILL. Let me say this, you do not make the demand. You do not have to go so far. I sell it to you and I give you a notice I am going to deliver. You do not have to make a demand. It is up to me to deliver.

The CHAIRMAN. Then why this discussion here, and the testimony of Mr. Hogan and other witnesses, to the effect that it is a physical impossibility to get cotton into New York very frequently within the period of time in which a delivery must be made from any point in the South except Norfolk, but say that it can be gotten into New York by reason of the fact that they could make the shipment within 48 hours?

Mr. CAHILL. That condition applies to Charleston and Savannah, with this exception, they are a little further South; but you have got various ports along the Atlantic Seaboard and you have a wonderful service from New Orleans and Galveston by water. Of course, if you have only 48 hours in which to make a delivery, you can not get your cotton from New Orleans, except in a week or ten days you can. The point is it may come to a certain period in the month when you decide you are going to deliver, or it may come up to a certain period in the month when it is a very profitable thing for somebody somewhere who has cotton to sell a hundred bales of October, and make a profit.

The CHAIRMAN. What proportion of the future contracts dealt in on the New York Cotton Exchange at the time they are entered into are expected to [be] fulfilled, so far as the delivery of cotton is concerned, by either the buyer or the seller?

Mr. CAHILL. That we cannot answer. We do not know. All I do know is this, that when it comes to the final proposition, if I have a thousand bales or ten thousand bales long, finally I get the cotton coming from somewhere. I have got to get it.

Commissioner NUGENT. How much cotton was traded in future contracts last year, how many bales approximately?

Mr. CAHILL. There is no record kept. There was a time years ago when they attempted to keep a record of the trading during the day, but no record is kept now.

Commissioner NUGENT. It must have amounted to millions of bales.

Mr. CAHILL. In a year?

Commissioner NUGENT. Yes.

Mr. CAHILL. Millions and millions.

Commissioner NUGENT. All right. How many bales were actually delivered?

Mr. CAHILL. In the course of the year?

Commissioner NUGENT. Last year.

Doctor STEVENS. We have the figures here on the deliveries on the New York Cotton Exchange [and] the number of bales sold there for three years. It does not include 1922–1923, but up to that period it is right there in that table.

Mr. CAHILL. This does not exactly answer the question. You do not want to know just how many bales were certificated and delivered, but I understood your question was how many bales of cotton *speculated* [inspected were delivered[?] to liquidate these contracts?

That is the impression I got.

The CHAIRMAN. Yes, how many bales of cotton were actually delivered?

Mr. CAHILL. Assuming that we inspected——

The CHAIRMAN (interposing). This merely for the purpose of illustration. Take some other year for which you have the figures.

Mr. CAHILL. Take this last year, 1922–1923. We certificated 64,475, but 64,475 may have been in different hands every month. That is an exaggeration. It may have been so if we multiplied that by 12 and maybe by four more.

Commissioner NUGENT. You say there were millions and millions of bales of cotton traded in on the exchange last year?

Mr. CAHILL. Yes, sir. There is no question about it.

Commissioner NUGENT. And according to your figures there were but 64,000 bales of cotton actually delivered?

Mr. CAHILL. Yes, sir. But there is an old illustration that tells us that there is not enough gold in the world to cover the various trades made as they are made.

Commissioner NUGENT. It must be true that at the time a very large proportion of those contracts are entered into, that the men who traded in them did not expect either a demand *or* [for] a delivery of the cotton or to deliver the cotton.

Mr. CAHILL. They do not know, but they have the privilege of requiring it.

Commissioner NUGENT. I thank you.

The CHAIRMAN. Now, Mr. Cahill, I want you to help me, and you are not doing it. You are causing me trouble here. You won't explain what a squeeze is. The sum total of that is, so far as I am concerned, I am going not into the cotton market myself to speculate, because I do not want to know the rules of the game. But I want to get this, and you can tell me, and I am very serious about it. You just said if you had all the gold in the world it would not suffice on straight deliveries to handle the business of the New York Cotton Exchange.

Mr. CAHILL. No, no. I did not say on the New York Cotton Exchange. That is wrong.

The CHAIRMAN. All the deliveries in the world. All right. That is just as good for my illustration as if it was on the New York Cotton Exchange, and I am not so dead sure it is not so true about that. That is, a dollar will pay a good many debts?

Mr. CAHILL. Yes; that is the idea.

The CHAIRMAN. Passing from you to me and then to Mr. Thompson and back again, a dollar will settle a dollar debt amongst all.

Mr. CAHILL. That is the idea.

The CHAIRMAN. Get this. I want to know it, and there is not any reason why you can not answer it. You folks over there on the New York Cotton Exchange buy and sell contracts to receive and deliver cotton, and one contract will cancel the other out. I am a buyer one day and I am a seller the next.

Mr. CAHILL. That is right.

The CHAIRMAN. And a favorite aphorism among you is that there is always a buyer for a seller, and there is. One dollar of gold will settle many debts; and, following out this clearing-house idea, it is your belief and your experience that a very little cotton will settle a good many contracts. Now, that is right, isn't it?

Mr. CAHILL. Yes, sir.

The CHAIRMAN. What I want to know is this: What kind of cotton settles those contracts?

Mr. CAHILL. Well, I will tell you.

The CHAIRMAN. I am going to ask you still another question. Isn't it awful poor cotton which is used to settle those contracts?

Mr. CAHILL. No, sir. We hear that once in a while, but it is not so.

The CHAIRMAN. Isn't this dollar that goes around to settle the debts pretty well bedraggled and worn by the time it gets around?

Mr. CAHILL. No, sir.

The CHAIRMAN. Well, what grade of cotton is used over there over and over again in New York, not maybe, as you say, but actually is used to settle a lot of contracts? What kind of cotton is used? Would any of these spinners use it?

Mr. CAHILL. They use every bale of it; there has never been a bale shipped to New York which has not gone out. There was never a bale received that was not spinned. These stories which you hear——

The CHAIRMAN (interposing). That answers the question, if it is spinnable cotton.

Mr. CAHILL. Spinnable, absolutely, and classed under the Government's regulations, under the Department of Agriculture, and it is all right. In regard to the membership of the warehouse committee, I can give the exact wording of the by-laws:

> The warehouse licensing committee shall consist of the president ex officio and at least one other member of the board of managers, who shall be chairman, and five members of the exchange.

That makes it seven. I said seven.

Doctor STEVENS. If you do not understand the meaning of the word "squeeze," I do not suppose you understand the meaning of the word "manipulation"?

Mr. CAHILL. No, sir.

Doctor STEVENS. In other words, what would you say if anyone were to ask you the question whether there were squeezes or manipulations in New York? You would answer that you did not know what they meant?

Mr. CAHILL. Well, we hear a lot of this talk of squeezes and manipulations, and so on, and you might talk all morning on the subject, and I could not tell you anything. Do you have to take all of this down? Does this have to go down?

The CHAIRMAN. This is an open hearing. We have to have this record.

Mr. CAHILL. I see. We might talk all morning, and I could not tell you anything that you do not know now about it.

The CHAIRMAN. That is [not?] true about me. That is *not* [?] true of Doctor Stevens. I am anxious to know.

Mr. CAHILL. It is true about you, too.

Doctor STEVENS. Then I will ask you this question: Is it your candid opinion that the New York futures market functions just as well as it could be expected to function or ought to function?

Mr. CAHILL. I do not like that question, "functions just as well as it could be expected to function." I say it functions.

Doctor STEVENS. Do you consider, then, that it is not possible to improve the functioning of the New York cotton futures market?

Mr. CAHILL. How need to prove it? It does function. You know it functions.

Doctor STEVENS. You misunderstood me. I said "improve," not "prove."

Mr. CAHILL. Oh, improve the functioning of the cotton exchange? That would be rather hard for me to answer, because as was said here a day or two ago, you can improve anything. I do not know how to improve it. We have got a contract there that requires the delivery of cotton, and we deliver all the time, and when you buy cotton there you can get your cotton all the time.

Doctor STEVENS. You have not heard any suggestions, then, that you think might improve the situation of the functioning of the New York cotton futures market?

Mr. CAHILL. Could I make a few statements? As we run along, we will come to that. I say that we are a cotton market, that we always have a potential stock of cotton. If we have not the cotton in New York, we have it close to New York, and because of the fact, a matter of nature or providence, or whatever you call it, we have had short crops for the last several years; and the stocks all over the world have been depleted. Liverpool at one time had only a week's supply of American cotton, and we know what the stocks were in other ports, but whenever necessary to fulfill sales which were made on the New York Cotton Exchange we obtained the cotton.

The CHAIRMAN. I want to call your attention to the fact that you are taking a good deal of time, and to keep in mind that I am going to call time on you pretty soon.

Mr. CAHILL. How many minutes?

The CHAIRMAN. You have been running now 45 minutes. That is about 15 minutes over.

Doctor STEVENS. I want to get some of these questions answered if I can, Mr. Murdock.

The CHAIRMAN. Go ahead and ask them.

Doctor STEVENS. All right. Are there any warehouses in New York City handling cotton exclusively?

Mr. CAHILL. Doctor, the warehouses where we store cotton, store cotton exclusively, but the system of warehouses which may own that particular warehouse may store in adjoining warehouses other things, but in any individual warehouse we have cotton only.

Doctor STEVENS. The individual unit.

Mr. CAHILL. Yes, sir.

Doctor STEVENS. Do you know of any time when the New York warehouse capacity was substantially exhausted?

Mr. CAHILL. We always succeed in obtaining storage for any cotton that has come to New York.

Doctor STEVENS. Did you ever have any difficulty in obtaining storage for cotton in New York?

Mr. CAHILL. Yes, sir. We had some difficulty, as I understand, a little while ago, but we overcame that difficulty by getting space for 35,000 bales.

Doctor STEVENS. Did you have a special committee that was investigating the warehouse facilities in 1922?

Mr. CAHILL. I think there is a special warehouse committee, of which Mr. Sam Hubbard, jr., was chairman.

Doctor STEVENS. Now, I want to read you a quotation from a letter signed by an individual who is chairman, or who signs himself as chairman of a special committee for investigation, presumably for warehouse facilities.

Mr. CAHILL. Who is that, please?

Doctor STEVENS. The letter I have here is not signed. I have not got the signature on it, because it is a carbon copy.

As to the question of the warehousing in New York, we all admit that the conditions here are economically unsound and extremely poor. There has been a special committee investigating this matter practically every five or six years.

Does that indicate that the storage facilities in New York are satisfactory, or anywhere near satisfactory?

Mr. CAHILL. I think that was Mr. Hubbard's committee.

Mr. HUBBARD. I think I should answer that question, if I may be permitted, for I believe that is a letter that I wrote.

The CHAIRMAN. What is your name?

Mr. HUBBARD. Mr. S. T. Hubbard.

The CHAIRMAN. Did you write that letter?

Mr. HUBBARD. Yes; I think so. I can explain the reason and what I know about it.

The CHAIRMAN. Go ahead.

Mr. HUBBARD. I would like to do so.

The CHAIRMAN. Of course, Mr. Cahill has the floor, and if he wants to yield to you, he may do so.

Mr. CAHILL. I will be very glad to do so.

Mr. HUBBARD. For many years it has been a hobby with me to try and have a concentrated warehouse in New York, rather than have them in Hoboken and on Staten Island and several places, and I have endeavored at various times to investigate. We have had a committee a number of times doing so. The idea of the investigation was to reduce the expenses, which is always a good thing to do. I took it up and in fact at one time in 1916, just before we went into the war, we had gotten so far that we had secured temporary plans or tentative plans drawn up to build our warehouses. It was not because there was not the space in New York. We have never had an occasion when we did not have the space that we could get available for deliveries on contracts. It was simply because some of us who are merchants in New York felt that we could improve and build ourselves a better warehouse than there was in New York. That was the whole basis of that.

Naturally, we are progressive citizens in the city of New York, and if we feel that we can have a better warehouse than there is there—not that they were not fireproof or that they were not good warehouses, but that we might improve on them, that we might concentrate our cotton under one roof, so to speak, and naturally more or less reduce our expenses—that thing almost reached a head in 1916. We were in the midst of the war and the port of New York was being taken over practically by the Federal Government, and it was later on taken over by the United States Government. I myself left New York in the spring of 1917, and did not return for almost two years. When I returned, the matter was again taken up and we were under war conditions, we had building construction—as all you gentlemen know about. I subsequently took the matter up with the Bayway Company, and we investigated it for them; in fact, the Bayway Company made us a proposition that they would turn over to the New York Cotton Exchange their entire stores, and stores would be added.

The CHAIRMAN. Did you write that letter?

Mr. HUBBARD. I think I did, sir.

The CHAIRMAN. What is the date of that letter?

Mr. HUBBARD. Some of those documents are not signed.

Doctor STEVENS. It is dated March 17, 1922. It is a letter taken from the files of the New York Cotton Exchange.

Mr. CAHILL. With regard to warehouse space in New York, I know now warehouses that have 1,750,000 feet, square feet, of ground floor space, and that alone will take care of approximately 600,000 bales of cotton, and a bale of cotton never has been stored——

Doctor STEVENS (interposing). Are the storage charges, the freight charges, the insurance charges, and so forth, at New York higher or lower than they are at southern points, generally speaking?

Mr. CAHILL. It would be better [for some one else?] to give you the charges at the southern points, and I will give you the New York figures.

Doctor STEVENS. You have no knowledge as to what those charges are?

Mr. CAHILL. I have a comparison here. For instance, we can store cotton in New York for a storage rate of 25 cents per bale per month, and labor in and out—this is the first month—of 25 cents; that makes 50 cents the first month, and I have a memorandum here of one of the eastern tariffs dated September 1, 1923, compressed American or Arizona cotton, first month storage in and out 55 cents; storage each month or portion of month, 25 cents.

Doctor STEVENS. Have you any direct knowledge of what these storage charges are? Isn't it generally considered that New York is an expensive place to store in, compared with southern points?

Mr. CAHILL. It is said so. Everybody says so, but when you get down to actual facts and investigate the thing, it does not seem so. Here is an illustration. Everybody speaks in New York of the high cost of this and that and everything else. I have not answered your other question about the improvement of the New York contract.

Doctor STEVENS. I asked you that at first.

Mr. CAHILL. Are you still on that?

Doctor STEVENS. No. I want to get this port charge proposition cleared up if possible. Are the deliveries at New York greater or less than at New Orleans on contracts?

Mr. CAHILL. I think they are greater in New York. You have your own figures on that.

Doctor STEVENS. All right. That is all.

Mr. CAHILL. Let me answer that other question.

Doctor STEVENS. All right.

Mr. CAHILL. In regard to improving the New York contract, I do not see how it can be done very well, and in regard to bringing in the southern warehouse system, I would say that Dallas, Galveston, New Orleans, Savannah, and Norfolk have gone on record as being opposed to it. You have got practically all of the ports opposed to it. We think that it is not commercially desirable, that it is indefinite as to place and indefinite as to value in our minds, and indefinite as to charges at the various places; that it is too complicated. It is not feasible and it is going to unsettle things, because with varying grades differences, varying local charges, freights, and so on, it is going to be expensive, because it will add or entail additional expense to the business. You will have to maintain machinery and it is going to be difficult to finance the proposition, and that is indicated already by some bankers, I am told. That I do not know. They did not indicate it to me, but I have heard so—and it would be apt to give us a depressed contract. It might give us general market depression, and there is no doubt in my mind but what it will give the discount——

The CHAIRMAN (interposing). Mr. Cahill, your time has expired, by about twenty minutes.

Mr. CAHILL. Very well.

The CHAIRMAN. If we skip along here in pretty good shape we can get through by half-past twelve, and Mr. Howard says he wants about five minutes [—] and his *associations* [associates] *having* [have] had very little time, [.] Mr. Howard, if you can confine yourself to that I will appreciate it.

Mr. HOWARD. I do not think I will take that long.

Commissioner THOMPSON. Before Mr. Howard makes a statement I would like to ask a question. Is there a unanimity of opinion among the spinners here that they are in favor of the southern warehousing plan? Is there any spinner present?

Mr. JOHNSON. Southern warehouse delivery?

Commissioner THOMPSON. Yes.

Mr. JOHNSON. We went on record as favoring southern warehouse deliveries yesterday.

Commissioner THOMPSON. It is unanimous among you?

Mr. JOHNSON. Unanimous among spinners; yes.

The CHAIRMAN. Mr. Latham, do you subscribe to that? We haven't heard from you yet.

Mr. LATHAM. Mr. Chairman, I take it for granted that Mr. Johnson is voicing the sentiment of some organization he directly represents. I am here, having been selected by the New York Cotton Exchange because I am also on that southern warehouse committee which is pursuing the investigation of this subject that we are discussing, and I suppose that I along with other members of this committee, was chosen for the reason that we are directly connected with the business that we are trying to fathom; that is, the spot cotton business, either in storage or in manufacturing or in merchandising or in exporting; also membership in the New York Cotton Exchange. I happen to represent all of those interests myself, and I am not prepared to tell you what other spinners say, but think Mr. Johnson's organization has gone on record. I have only my own views on the subject.

The CHAIRMAN. Now, Mr. Howard.

STATEMENT OF MR. C. B. HOWARD, ATLANTA, GA.

Mr. HOWARD. I wish to speak only on one point which was brought out yesterday and has not been touched on. It was brought out by questions asked me by Mr. Hubbard and Mr. McFadden in relation to the differences as to premiums or discounts between near and distant months. I answered that in so far as it affects our selling of spot cotton, but giving it furthrer thought, it is a very important question, a factor in the general marketing of cotton.

All exchanges occupy an important position in the distribution of cotton, but their function should be to assist the distribution of cotton, and if they fail to do that, then there is no reason for their

existence. The rules and regulations should be fixed so as to make them in line, so far as possible, with spot cotton. When anyone sells us a December contract, if he has to actually deliver the cotton in New York, it is generally done at a loss to the seller as compared with the price he can get for cotton in shipping to American mills or for export. The cause of that is that New York is out of line of the current of cotton marketing, or the trend of marketing to the mills or to export, and it costs him relatively more to get the cotton to New York with the charges after it gets there and deliver it on his contract. That being the case, it tends to make the near months when he has to deliver go to a premium over the more distant months. That, I think, is bad for the distribution and marketing of cotton, for the following reasons: First, here is a buyer of cotton goods. He sees May contracts in New York at a discount of 50 or 100 points or more under December. He thinks that if he waits he should buy his goods best on that lower month, and he does not buy, he waits to buy. A cotton mill, seeing May at a discount under December, does not buy its requirements, but waits to buy hoping to buy on that discount.

Now, there is always more cotton sold in October, November, and December than the spinners of the world need at that time. The cotton merchant is usually the reservoir. He buys that cotton and sells contracts against it and prevents the flood down the mountain side; but if he has to sell his hedge into a more distant month into a discount, then he hesitates to buy the cotton that is pressing on the market, because he is selling his hedge into a discount and apparent loss, plus his carrying charges until that more distant month, which gives less demand for the cotton that is present on the market, less demand from the cotton merchants and less demand from the spinner. The natural order should be that the near month should be at a discount and the more distant months at a premium, because cotton should be worth more in March and in May than it is in October and November. There is less cotton at that time. There is less cotton to be sold at that time.

The cotton that is ginned and goes on the market in the fall must be carried into the spring and summer at the carrying charge, at the cost of warehousing and insurance and interest. So it is a normal condition when the near month is at a discount. If we have southern warehousing, where cotton can be delivered against these near positions without being forced out of its current to New York, it would to a certain extent correct that abnormality, and abnormal things are what we wish to get away from in the cotton trade.

Mr. HUBBARD. May I ask a question?

Mr. HOWARD. Yes.

Mr. HUBBARD. My understanding of the net summary is that the whole thing is that you desire to have the near positions in New York at a discount under distant positions?

Mr. HOWARD. Yes, sir.

Mr. HUBBARD. And that is also the opinion of the spinner? May I ask that question of Mr. Johnson?

The CHAIRMAN. Mr. Spinner has not the floor.

Mr. HOWARD. I will yield for that question, Mr. Johnson.

Mr. JOHNSON. That is one of the things which the spinner recommended, and it operates in favor of the spinner—the premium to absorb the carrying charge.

Mr. HOWARD. That is all I have to say.

The CHAIRMAN. Thank you, Mr. Howard.

Mr. Marcus, of the Texas Cotton Association, comes next.

STATEMENT OF MR. THEODORE MARCUS, DALLAS, TEX.

Mr. MARCUS. Mr. Chairman and gentlemen, what I am going to say, I would like to have on the record as being a personal statement, and not for the Texas Cotton Association, because they are at variance from my views, I think, to a great extent, and I want to give them the opportunity later on, if they should want to, to make a statement of their own. I do not want to embarrass them, in other words. Mr. Chairman, I want to say that I am in favor of cotton exchanges. I think they perform a function that the farmer and the merchant and the spinner could not do without. To show you how closely allied the cotton exchanges are with our business, I may say that as a merchant we buy our cotton nearly altogether from first hands, and we hedge that cotton, and in the course of our business it becomes necessary, to fill the orders which we have, to buy additional cotton, which is also hedged, and I would like to have the privilege of having a contract that we could deliver that cotton against with the least penalty. I am speaking now of the surplus over and above our orders.

I might go further and say this—that we have a further need for futures when we sell cotton ahead. I am now speaking of selling ahead for export. In advancing markets, the charges, meaning the 6 per cent and the insurance and the exchanges, amount in round figures to above ten points for each cent a pound advance in the market, and if we sell a thousand bales of cotton ahead for delivery, say sixty days hence, and the market is advancing, for instance, *25 cents a day* [and it is 25 cents to-day?], and it should advance to 29 cents or 30 cents, before I could get ready to buy that cotton, I have increased the charges, or rather the charges have been increased by this advance in the market, 50 points. In other words, the net calculation to me, figured on the basis of 30 cents per pound, would be 50 points less than if figured on the basis of 25 cents a pound, and it becomes necessary, although I do not want to, for me to buy a hundred bales of futures to offset that difference in the charges. In other words, if the market advances 5 cents per pound, I will have made approximately on that 100 bales a matter of $2,500, but I will have lost exactly the same amount in the advance on the charges against that transaction in spot cotton.

I mention that for the purpose of showing you the fallacy of attempting to do away with the future market, if there is any such intention on the part of anybody, as was stated here yesterday by a gentleman, Mr. Marsh, I believe.

Another thing that I should like to say is this, in behalf of the merchant or middleman, who seems to come in for so much censure and ridicule by these farmers' associations and [co?] operatives.

Mr. HOWARD. Not by the [co] operatives.

Mr. MARCUS. I mean the farm labor unions, and so forth. I did not include Mr. Howard's association, or I did not mean to, because I do not think they agree with the other people. Cotton is sold, as has been shown here, over a period—that is, the majority of the

cotton is sold over a comparatively short period. The spinner is not, has not, and probably never will be in a position, whether of choice or necessity, to take that cotton as the farmer offers it. In the first place, he may not care to finance it. He may not care to pay the storage. I might perhaps mention first that he wants to buy even-running cotton, and he does not want to buy the cotton that we buy. We buy cotton from the grower and we take everything that the grower produces, whether it is good ordinary or good middling, whether it is *tainted* [stained], yellow, gray, or spotted. We take that cotton from him, and it becomes necessary to hedge it. We prefer to buy our cotton first, class it up, see what we have, and then merchandise that stock. Inasmuch as the spinner will not buy the quantity of cotton that is offered during the period, it becomes necessary to have a middleman, who is willing to buy any quantity of our cotton within reason, so long as he can see a chance of making merchandising profit or commission out of it, and I think, therefore, that the middleman does perform a very satisfactory function in the marketing of that crop. He takes up the slack that would otherwise exist.

The farmer otherwise might get benind with his cotton and not find a market for it, because Mr. Spinner is not ready to take that cotton from him as it stands and pay him for it at that time. He would not take the quantity, nor would he take the grades, and I make that explanation on behalf of my fellow merchants, who are in exactly the same situation that I am and perform the same function.

Now, I am not going to take up any more of your time than I can help, but there are some other things about this whole question that I do not believe have been made quite clear, and I have not really taken notes, and I may ramble along, which I hope you will pardon.

The trouble to my mind, as I analyze it, after listening to you gentlemen who have spoken here, to all the gentlemen who have spoken here, with the New York Cotton Exchange, is mainly in the fact that the New York Cotton Exchange does not or has not been able to have enough cotton on hand to stabilize the price. In order to get enough cotton there to stabilize the price, how are you going to go about it? You can not go about it, in my opinion, by restricting the grades. You can not say that you are going to have even-running contracts which would mean that nobody would ever deliver cotton there, because any man can sell even-running cotton at any time anywhere for more money than he could get on the New York Cotton Exchange at any time.

As to contiguous grades, I have been looking into that matter, and I can not exactly see how that would be workable. In the first place, there are within the range of possibilities, first, the grades, and secondly, the value of those grades. I can see why, for instance, middling, strict low middling, and low middling are three contiguous grades, so far as grades are concerned; but they are not contiguous so far as values are concerned. We have in between there several grades. We have good middling, yellow stained. We have good middling, light yellow stained, and also middling spotted. Those grades all enter together. Are you going to take the contiguous grades of value, or are you going to take the contiguous grades themselves?

The CHAIRMAN. Why is that such a terrible objection?

Mr. MARCUS. The reason why it is a great objection, I——

The CHAIRMAN (interposing). Wait until I finish my question. Why doesn't it also apply to your ten tenderable grades there? There are differences in value and grades too.

Mr. MARCUS. Under the present scheme, you can deliver anything, practically, but under tenderable grades you would have 50 bales of low middling and 50 bales of good middling, very fine cotton, but the contract would not pass. Now, gentlemen, I want you to thoroughly understand that if the contiguous-grade proposition can be shown to be workable, I am in favor of it; but I have consulted and spoken to Doctor Stevens, if I may be permitted to say that, and he has no definite ideas as to it himself. I am afraid that it is going to restrict the contract, and if it does, then you are defeating the purposes that you are now trying to attain. When the Lever bill was presented——

The CHAIRMAN (interposing). Of course, Mr. Marcus, that is easy to say, that the truth of the matter is that along about ten years ago; [—] I know this personally, and I was on the ground myself and saw this—when the proposition came up in Congress to restrict the New York Cotton Exchange in any respect, they cried "Murder" over there, that all the world was coming to an end. As a matter of fact, we have sat here for three days and heard the same men, who thought they were going to be crippled for life, come in here and indorse it as an almost perfect measure. You say further restriction of the delivery contract would seriously cripple the New York Cotton Exchange. Why do you think it would do that?

Mr. MARCUS. The reason I say that is that the further restrictions you place on the number of grades deliverable, will mean the fewer deliveries that will be made, and my argument is more deliveries should be made and not less.

The CHAIRMAN. Were there more deliveries made under the old conditions, when there was no law, than now?

Mr. MARCUS. I am not prepared to answer that question; that is a matter of statistics, and we are not dealing with that situation. I take it that we are dealing with the present situation and not the past. We are dealing with how can you get more cotton available for New York contracts, in order to stabilize the price and do away with the condition that you gentlemen seem to be complaining of.

The CHAIRMAN. I am not. Don't put me in any such position. I am seeking light.

Mr. MARCUS. When the Lever bill was proposed, it originally contained thirteen or fourteen grades, and Congress saw fit to reduce it to about ten. If I am not correct, you gentlemen will correct me, I am sure. They cut what? They cut out middling *tinted* [tinged], *middling* [strict middling], gray, strict low middling spotted. The three grades that I have mentioned are just as good, to my mind, for spinning purposes as any other grades in the ten. My argument is this. At the present time with the restriction of low middling on the down side that contract means in effect a strict low middling contract, because people do not want to ship cotton to New York and take a chance of having the rejection of the low middlings, so they are extremely careful, and I think the gentlemen here will bear me out in that. If you had a strict good ordinary contract, you would then perhaps have in effect a low middling con-

tract, which was contemplated by Mr. Lever in this bill, but I maintain that the three grades, the middling *tinted* [tinged] and the strict middling gray, and the strict low middling spotted, are absolutely fine spinnable cotton and readily salable, and any spinner in the world would be glad to get them.

I want to say further, your reference to dog tails does not *exist* [apply], but the gentleman here yesterday has truly stated that since the advent of the boll weevil the cotton is picked very early, and we have got gins which will take everything out of the cotton except the color, and we do not have the good ordinary and the strict good ordinary, which existed prior to the Lever bill. The low grades are of the type which are not tenderable on contracts in Texas.

My mind, therefore, runs on these lines, that if you are going to cure the situation to-day, you are not going to cure it by further restricting the grades, but by making it attractive to deliver cotton against contracts and not unattractive. That is my argument against the even running cotton and the contiguous grades, although I say I would favor the contiguous grades if it can be shown that it is workable.

Now, how does the kind of cotton deliverable on contracts affect this premium of the near and discounts of the future? It is by all means this to all intents and purposes, that you invite the speculator and the spot people, perhaps not acting in collusion but acting in this belief, that generally speaking a short crop means premiums on the nears, and discounts on the *future* [fars]. That is the generally accepted belief among the spot-cotton people, and it is generally preached by everybody. Therefore, when a spot man sells a contract ahead, he wants to buy futures against it, and he buys the near position because he thinks the near position will come up and the distant position go down. It invites the speculator to come in on the same theory, and buy the nears rather than the distants, because he realizes that when the sale of the cotton becomes necessary he will sell the distant one and not the near, and that whether you have collusion, as has been *tried* [alleged] in many cases, which is altogether gossip and rumor, I take it, it is simply because all cotton men's minds meet on that proposition that that is the case, and it is taken up—I am speaking of the spot-cotton men—and because cotton men's minds meet, and because the speculator goes along and believes that, you have that situation.

The CHAIRMAN. Can I take this as a rule, in your best belief in watching this thing, that when we find out in the fall of any year in the future that there is a tremendous production of cotton, then the normal and logical position of the future markets is near *markets* [months] at a discount and distant *markets* [months] at a premium?

Mr. MARCUS. Yes, sir.

The CHAIRMAN. That next fall, if there is another short crop, then it is your prediction, based upon a logical knowledge of the past, that the near future months will be at a premium and the distant months will continue at a discount?

Mr. MARCUS. I will say that that is correct, with this reservation, that if you will give me enough spot cotton to make the speculator place his buying hedges in distant positions, not in the nears, I think you will get your near months down to the level of the spot cotton, and you will perhaps have a level situation, if not the distant at a premium. I said a moment ago that that is a general belief of the trade, that that condition should prevail or does prevail. I do not say that that is due entirely to the spot man's idea, but I say it is aided and abetted by the speculator who follows the spot man. If you can eliminate the speculator by throwing the fear into him that he is going to get cotton which to-day he is not afraid of, because there is no cotton in New York to give him, he will not stay in that near position. He will follow the logic of the thing and buy the distant and bring about just what we want. I want you to understand, generally, that I am in favor, distinctly, of anything that will put the near months at the value of cotton and distant months at a premium that will pay the carrying charge, and that is where it ought to be. I can not see why immediate cotton should be worth more money than March cotton. There is no reason for it, excepting the very conditions which I have just explained to you.

Going back to my original point, if you restrict the delivery of cotton, then you defeat that purpose.

On the question of southern warehouse delivery, I came here with an open mind. The question becomes more involved, it strikes me. I may say broadly that I am in favor of it, because I believe that unless you put too many restrictions around it and make it so severe, that the man in the South won't deliver cotton, that it will at least have the effect of instilling that fear into the speculator and keep him out of advancing the near position all the time.

I believe I have made my statement.

The CHAIRMAN. Have you any questions, Doctor Stevens?

Doctor STEVENS. I do not think I have a question.

The CHAIRMAN. We thank you, Mr. Marcus. We realize that that is your personal view and you are not embarrassing your association in any way.

Mr. MARCUS. I thank you.

The CHAIRMAN. Now, Mr. Latham, we would be very glad to hear from you. Is Mr. Blalock here this morning?

Mr. HOWARD of Atlanta. I think he left last night.

The CHAIRMAN. I see. After you, Mr. Latham, I have here one more speaker, and that is Mr. Clayton, who wants to get back to New York. Cotton is going up every day, I see from the newspapers.

STATEMENT OF MR. GEORGE B. LATHAM, OF GREENSBORO, N. C.

Mr. LATHAM. My name is George B. Latham, of Greensboro, N. C. I am a cotton merchant and warehouseman and cotton spinner. I wish to say that I have the honor of appearing before you for the reason that I was appointed by the New York Cotton Exchange, having been a member of that and also a member of this much-talked-of committee for investigating the southern warehouses in the South for the delivery of New York contracts.

The CHAIRMAN. Were you born down in North Carolina?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. When did you go to New York?

Mr. LATHAM. Well, sir; I have been making pilgrimages to New York about every two months for the past 35 years, but the tar is

still very thick on my heel, and I still live in North Carolina, and always have.

The CHAIRMAN. When you arrive at New York, what is the New York Cotton Exchange physically? Is it a building? I do not know. I would like to know.

Mr. LATHAM. I believe that I can tell you that. The New York Cotton Exchange is a membership of various interests scattered throughout the world, engaged almost exclusively in the business of dealing in cotton. There are, to be sure, a few stock exchange members that I find drift down there for either business or social reasons, but in the main the membership of the New York Cotton Exchange is a membership of men engaged in the cotton trade. The fact that they are acting and joined together by forming a corporation and have built a great building in which they have their offices, and on the top floor of which they cry—that is, they deal in this thing called cotton, there are orders assembled there from the four corners of the world.

The CHAIRMAN. They are an incorporation?

Mr. LATHAM. No, sir. There is no incorporation of the New York Cotton Exchange.

The CHAIRMAN. I thought you said there was an incorporation?

Mr. LATHAM. No, sir.

The CHAIRMAN. They come together as members of a common organization, because they are interested in the buying and selling of cotton, crying it for sale and purchasing it. Now, that is one thing. That is, men get together and what do they form? That is what I want to get at. I do not know, but I really want to know, do you do just as I would have done traveling in from Kansas. I would observe the world and wonder who they were and how they operated. These men get together and what do they actually do? It is not a corporation. Is it an association?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. What is its legal entity?

Mr. CONE. If I may interrupt, it is a corporation, chartered within the last few months.

The CHAIRMAN. That makes it quite easy to get along. Its members, are they stockholders in this thing? Does the corporation have a share capital?

Mr. LATHAM. No, sir. They have what they call a franchise or a seat. That is, they are admitted to the trading floor. That is a privilege of being a member of the New York Cotton Exchange.

The CHAIRMAN. They do not have share capital?

Mr. LATHAM. I do not think there are shares issued.

Mr. CONE. They are a membership corporation?

The CHAIRMAN. I see; and this corporation really has something for sale, hasn't it, outside of cotton? As a corporation does it have something for sale?

Mr. LATHAM. Do you mean does it have value?

The CHAIRMAN. No; I am thinking about the fact that a lot of men congregate together and form a corporation. They have apparently no share capital. They have certainly something. What is their holding? Is it the membership in the thing? Is that their holding?

Mr. LATHAM. That is all.

The CHAIRMAN. That is called, and I think erroneously, a seat?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. How many seats do these folks own in this corporation?

Mr. LATHAM. I think there are about 350.

Mr. CONE. Four hundred and fifty, altogether.

The CHAIRMAN. If I go in there and want to buy a seat, what is my process of getting that seat?

Mr. LATHAM. You would have to buy [from] somebody else.

The CHAIRMAN. I see.

Mr. LATHAM. You would have to buy some member out who has got one for sale.

The CHAIRMAN. So I do not really buy from the corporation, but from a member?

Mr. LATHAM. From a member.

The CHAIRMAN. Does the corporation have anything to say about it?

Mr. LATHAM. I think they would have nothing to say as to whether the member could sell it to you, but whether you would be admitted to the privileges they would have a great deal to say.

The CHAIRMAN. So I might buy something which some one else did not have to sell?

Mr. LATHAM. He would have something to sell, but you would find the door locked when you tried to get in.

The CHAIRMAN. What do these seats sell for ordinarily?

Mr. LATHAM. Well, sir, being from a cheap section of the country, I bought mine pretty cheap, $600, in 1898, but I think they are about $28,000 now. They have sold higher than that.

The CHAIRMAN. And here is a commodity in the shape of a seat. If you bought for $600 and sold for $28,000, would you pay an income tax on that profit?

Mr. LATHAM. Well, sir, that is not a thing that I have ever thought about or even consulted counsel concerning it.

The CHAIRMAN. I am trying to locate that seat as a piece of property, but I do not suppose it can be done. This corporation which has memberships which the individual can sell, and has no share capital, does have a great big building, doesn't it?

Mr. LATHAM. I am of the opinion—but I would like for you to ask one of the New York people that are here—I am of the opinion that that building has been built by a corporation known as a building committee that is separate and apart from the charter of the New York Exchange. Am I correct about that? I will yield to Mr. Cone to give you information upon that.

The CHAIRMAN. If you can in a word. Who owns the building?

Mr. CONE. The New York Cotton Exchange owns the building, and the corporation is simply organized for the purpose of providing housing facilities and establishing rules. It has nothing whatever to do with the cotton business itself in any way whatsoever. In the process of time the cotton exchange owns the land free and clear, and last year we borrowed enough money and plastered our building with first and second mortgages sufficient to put up this new structure.

The CHAIRMAN. Then the individual members are not individually liable for that?

Mr. CONE. Except as they guarantee the second mortgage.

Mr. LATHAM. And that only applied to some few of the members.

Mr. CONE. Practically all the New York men went in.

The CHAIRMAN. Then, Mr. Latham, here is a membership, which is a corporation, which has certain liabilities of a corporation, a membership which has a certain thing to sell, and this membership gathers in this building daily?

Mr. LATHAM. Except holidays and Sundays.

The CHAIRMAN. At what hour do they open up this trading?

Mr. LATHAM. At certain seasons of the year they open at 9 o'clock and at other seasons they open at 10.

The CHAIRMAN. And what time do they close?

Mr. LATHAM. When they open at 9 o'clock they close at 2 and when they open at 10 they close at 3.

The CHAIRMAN. Do they maintain a service for ticker information?

Mr. LATHAM. The ticker news is, of course, supervised by the membership committee or by the committee on quotations.

The CHAIRMAN. That is, a transaction takes place, a quotation follows, and that quotation is posted, and that posted quotation is transmitted around New York City, isn't it?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. And around the United States?

Mr. LATHAM. It is turned over to the news carriers of the world, the Western Union and the Postal, and so forth.

The CHAIRMAN. Is there an ownership in that quotation, do you know?

Mr. CONE. There is not.

Mr. LATHAM. Not so far as the quotation of the exchange is concerned.

The CHAIRMAN. When that price or a quotation is posted and quoted, that becomes then public property. Am I right in that?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. I wanted to know. There are, of course, on this market, as you have observed when you have made these visits from North Carolina, a bull and a bear, who is a buyer and seller of future contracts. Is that right?

Mr. LATHAM. I think sometimes those terms are used in rather an offensive or frivolous sort of way.

The CHAIRMAN. I did not mean it in that way. There is a man who believes it is a good thing to sell a contract for future delivery at a price, and there is a man opposite him who believes it is a good thing to buy that contract. That is a transaction?

Mr. LATHAM. I think more properly the transaction would be if a spinner, like Mr. Johnson over there, would have sold some clothes or yarns earlier aggregating 300 bales, and he wishes to cover that, he sends his order to a man in New York to cover this particular transaction, a legitimate transaction, and I at the same time have a broker standing across the room—Mr. Clayton's broker or my broker, who comes up from North Carolina or Texas—who has instructions to buy some cotton from some cooperative association or some firm.

The CHAIRMAN. You have carried this back just one degree, but what you see when you get down there is a buyer and seller. I do not see Mr. Johnson, and you do not see Mr. Johnson. One of them has an offer to buy and the other has an offer to sell in the open market.

That continues, you say, until an hour in the afternoon when that market closes?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. Are there any other transactions in the New York Cotton Exchange after the market closes, between members?

Mr. LATHAM. So far as that is concerned, I think most of the cotton people are engaged in the spot cotton business, and there is, of course, no time limit upon buying spot cotton.

The CHAIRMAN. There could be a sale of spot cotton anywhere or any time. Is there any dealing in anything after the close of that market?

Mr. LATHAM. I can not say, but having viewed the closing of the cotton market a number of times I can say that the very instant the bell rings it does not mean that every tongue is paralyzed, and probably the trading does continue.

The CHAIRMAN. Is there any bidding or offering of stuff after the close of the market?

Mr. LATHAM. Only on the immediate recession of the wave, so to speak. In other words, there is no market an hour or two or three hours after that, so far as I have ever heard.

The CHAIRMAN. And bids and offers are not made?

Mr. LATHAM. Except immediately following the ringing of the gong, which indicates the closing hour.

The CHAIRMAN. There are no puts and calls in the cotton market. Am I right on that?

Mr. LATHAM. None, so far as I know.

Mr. CONE. It has always been against the rules.

The CHAIRMAN. I wanted to get that. I am differentiating in my own mind between this exchange and the business of trading in other commodities, such as wheat.

Mr. LATHAM. I have traded in almost everything that I have ever had an opportunity to trade in, but I have never had an opportunity to trade in puts and calls on the cotton market, but I would have been guilty if this was possible.

The CHAIRMAN. You are a business man, and have studied over these things. You believe, of course, or you would not be in it, that the future market performs a function which stabilizes the market and permits an intelligent forward trading in commerce. You think that the future market is a good thing?

Mr. LATHAM. I do.

The CHAIRMAN. I know you do. Can you differentiate trading for future delivery with the real expectation of getting some thing, and that which is very often called gambling? That is, where a man gets into a situation, he does not own any commodity, he is very much frightened if the commodity happens to approach him, and he does not want it, and he goes into a proposition and buys or sells a thing, or agrees to buy and sell a thing at a future date, with absolutely no intention either of delivering or receiving. I do not know whether you know it or not—are you a lawyer?

Mr. LATHAM. No, sir.

The CHAIRMAN. The Supreme Court has come dangerously near saying that a contract for receipt or delivery of a commodity at a future date has its validity based in the bona fide intention of the buyer or seller to receive or deliver, and that if the intention is not

present it is gambling. What is your view of that? That is a legal opinion. I am not a lawyer and you are not a lawyer; what do you think of it as citizen?

Mr. LATHAM. I believe that in order to hang the shadow of gambling upon that transaction, both the buyer and the seller—that is the parties to the transaction—would both have to enter into the transaction with an intent and a purpose to make no delivery.

The CHAIRMAN. Do you think that there has got to be a double intention to escape the actual transaction, which would, in effect, amount to a conspiracy?

Mr. LATHAM. I think that would in effect be true, even though one of the parties was a member of the cotton exchange, but a man sending an order to the New York Cotton Exchange does it with a presumed full knowledge of the fact that every slip that his broker signs states upon its face that an actual receipt or delivery according to the transaction is contemplated, and in the history of the New York Cotton Exchange there never has been a termination of a month but what all contracts that had not been satisfactorily passed out of in the meantime were properly and satisfactorily liquidated. As the gentleman who preceded me said, one year there were some 800,000 bales of cotton sent to New York and delivered on contracts, and there were other years when the contracts were very much lighter.

The CHAIRMAN. It has a history that is clear of *refutation* [repudiation]?

Mr. LATHAM. In so far as I believe there never has been anybody that bought a hundred bales of cotton on the New York Exchange that if he stayed there with his capital liquid and intending to receive did not have the cotton stuck under his nose sometime in the month. Sometimes members have had to send in a note that they were unable to meet their obligations. Of course that is not the matter that you are investigating at the present time.

The CHAIRMAN. No. In these hearings it very frequently happens that the most elementary things, the simple things, are overlooked, and I have never seen the New York *Stock* [Cotton] Exchange, and I simply wanted to get from your mind a vision of it. When I go down there in the lower end of New York City I am so confused I do not see anything. There is so much going on.

Mr. LATHAM. I am sure we will be very glad to have you come down and look over the exchange.

The CHAIRMAN. I am afraid to.

Mr. LATHAM. It is not essential, you know, but some vests do have inside pockets. Would you like me to proceed now?

The CHAIRMAN. Oh, surely.

Mr. LATHAM. One of the things I would like to call to the attention of the commission is the investigation this committee is now making with regard to the storage of cotton, or rather the certificating of stored cotton, in the South, and I wish to say in that respect that I am not representing the New York Cotton Exchange in any views that I am making, for the reason that even this committee is probably not a unit upon any one of the things we have considered. We are investigating from time to time the things we have been delegated to do, just as you gentlemen are, without collusion, and therefore if Mr. Clayton should agree with me or Mr. Jenks should disagree with me in what I have to say, they are entirely within their

rights. Therefore, what I am expressing—and I feel that I have a right to tell the commission some of the stuff that this committee has taken in its investigation of this subject as to why we should certificate cotton in the South and not confine it primarily to the port of New York.

The first conclusion that we arrive at is that the handling of cotton in New York, because of its bigness, is nothing like as economical as it is handling it in smaller places There is a freight rate to New York that is lost sight of, and the port expenses in New York are large, and when you are attempting to serve cooperative associations and farmers and everybody else that is interested in the cotton trade, I believe that I unanimously voice the sentiment of the New York Cotton Exchange when I say that we wish to do everything as economically and with as little cost as can be done in the conduct of business.

Therefore those people who are engaged in the spot-cotton business have naturally seen the lack of economy as practiced in the port of New York, because they are higher than they are in other places. There may be some places even higher than New York, but *in* [?] shipping the cotton into New York and getting it in and then out is expensive.

In addition to that, New York does not have the same advantage as many other places in the world. For instance, Greensboro, N. C., is one of those places where you can ship cotton almost from anywhere, and you can put it in a store and keep it three months or six months, and then you pay the original rate of freight on to destination, and the rate is the rate which it costs the shipper.

Therefore, to put cotton in warehouses there on what is called the reshipping privilege is a very fine thing for that particular market. That market is not alone in enjoying that privilege; there are others—Greenville, S. C., Atlanta, Ga., and Augusta, and other places.

The CHAIRMAN. It is practically a milling in transit privilege?

Mr. LATHAM That is exactly what it is. The port of New York for some reason or other has never gotten gateway privileges. I do not know what is the matter with them. I do not suppose they have been asleep. Therefore, if you wish to ship cotton from Savannah, Ga., or some interior point to New York and then send it to Connecticut among the Yankees, or any other place in New England, or over into Canada, you will find that the rate of freight from the primary point pays two local freights. You will also find that you can ship cotton to almost any foreign port—of course, not to the occasional places where it would take a special ship, but to the main cotton ports of the world, such as Liverpool and Havre and Bremen and Genoa—you can ship cotton practically all the year round just as cheaply from Norfolk or Savannah or New Orleans or Galveston as from New York. Therefore, the coastwise comes in there, and that economy many of us have failed to appreciate and has been lost sight of. Of course, it is necessary for New York to have some cotton. That is admitted by all men. I am speaking of New York generally. A large number of merchants engage for their own protection to keep cotton there, so that there will be no reflection made upon them. There must be some cotton in the port of New York practically all the time; and this year, when we got down to having only two hundred bales of cotton—and in fact I believe it got down

to the point where the great port of New York had only ninety-two bales of certificated cotton—which more or less was the substance at one time of all that shadow of hedging and of dealer buying, and things of that kind, and of course you gentlemen know that that was too small an amount. Of course, the need was answered by some fifteen thousand bales going up the last week in October. But to get it there in a large way and an economic way is impracticable, so that the various members of the cotton exchange delegated to a committee this matter of investigating whether or not they could not accept cotton for delivery outside of the port of New York.

Commissioner NUGENT. Is this the first time to your knowledge in the history of the cotton exchange when a committee has been delegated by that body to make such an investigation?

Mr. LATHAM. No, sir. They have done so several times before.

Commissioner NUGET. Over what length of time?

Mr. LATHAM. Well, sir, I can not answer that, not having been upon the committees, but I know in a general sort of way it has been done, and the statistics can be handed to you and the reports of all the committees.

Mr. CONE. Since 1903.

Commissioner NUGET. Do we have them?

Doctor STEVENS. Yes.

Commissioner NUGENT. Notwithstanding the investigation has extended over a period of about twenty years, nothing has been done to relieve the situation of which you are now complaining. Is that correct?

Mr. LATHAM. It has never been considered as desirable to do it.

The CHAIRMAN. We have the reports.

Mr. LATHAM. This investigating committee have concluded that if the warehousing can be moved to a little bit larger field than they now occupy, and all of the strength and character that has heretofore supported the basis of these contracts can be carried along, that it would be desirable. The committee, Mr. Chairman, has not had in mind at any time whether or not it would materially benefit or hurt any particular ones, but the thinking has been along the line as to whether or not it would be a great benefit to all without hurting any particular class; and, being the only dirt farmer on the committee, Mr. Chairman, I take this opportunity of saying that in my opinion, and representing the other farmers on the committee with me, if we could devise a contract or anything of that kind that would be of more benefit to the producer himself, we would be very glad to see it done. I believe each and every member of the committee would desire to make that sort of a contract. Therefore, whatever prejudices we may have as we go along are in that direction, or trying to benefit the producer.

Carrying it along as to whether or not we shall certificate in the South, there are many difficulties which it would be impossible for me to relate in the short time I have, but there are a great many, such as the strength and solvency and character of warehouses, because this involves very tremendous financing. A thousand bales of cotton at the present time is very easily said. You do not even have to say it slow, but it amounts at the present time to $170,000, and that is an item that will have to be taken into consideration.

The CHAIRMAN. I am following you as closely as I can, but take that objection that you have got to the southern delivery points, and then I contrast that immediately in my mind with your statement that New York had at one time ninety-two bales, which it did not take much money to finance.

Mr. LATHAM. No, sir.

The CHAIRMAN. Well, why should it take much down South? I just can not join the two together. There must be something that I do not know about. What is it?

Mr. LATHAM. That ninety-two bales of cotton is one contract. It probably weighed more than five hundred pounds to the bale.

The CHAIRMAN. But you said in New York that they were making settlements of future contracts and there were only ninety-two bales.

Mr. LATHAM. That is true.

The CHAIRMAN. It did not take very much to carry the cotton that was offered on contract there, then. What is the difference between that and having the New York future contracts with deliveries down South? Does it contemplate that if you have warehouse deliveries down South, you are going to have a powerful lot of cotton piled up for delivery?

Mr. LATHAM. Not necessarily. You must recollect that we came very dangerously near going into a famine this year at the end of the season until new supplies came in. Cotton manufacturers here, there, and everywhere were strained to get supplies to run their mills with, because the visible supply of cotton had run down very considerably, and it was rather natural that the New York stock moved out. It was moved out all except ninety-two bales, which represented one contract.

The CHAIRMAN. Can you show me how it would take a lot of money, for instance, if Savannah was a port of warehouse delivery, how would it take a lot of money to carry the cotton down there awaiting delivery on future contracts?

Mr. LATHAM. It takes a lot of money to carry cotton in volume, no matter where located.

The CHAIRMAN. Surely.

Mr. LATHAM. And it takes not any more money, but the financing is much more difficult if the cotton you wish to carry is in a place in which people have not complete and absolute confidence. That is what I mean.

The CHAIRMAN. Would it also mean probably, following that out, that if you had southern warehouse deliveries you would have more deliveries on contracts?

Mr. LATHAM. I believe you would.

The CHAIRMAN. More people would come across with the goods?

Mr. LATHAM. I believe that you would have more. I believe that merchants would find the certificated cotton easier to sell than cotton that would be described by them and not certificated. As a spot merchant up in North Carolina, I feel certain that many little fellows in Texas that now I decline to deal with, if they should wire me that they had a thousand bales in Galveston or Houston, and that was all covered by governmental or New York certification of it, I would not have any hesitation about buying that and paying bill of lading drafts, but if they merely wired me and gave me that description, I

might be looking around Mr. Bradstreet and Mr. Dun to see what that fellow had about him. If I did not know him very well, I might be wiring somebody to find out his character—having been in a business where people in several instances in my life have forgotten to deliver.

In regard to that enlarging of the plan, we believe *that the contracts will be very much larger certificated* [?] and that commercially it will be a very much better contract than we have had, and the price of dealing in it very much greater than we have had. And there is another thing from an economic point of view that has presented itself to this committee. Let us suppose that a man in Texas to-day had a thousand bales of low middling cotton that is deliverable on contract in New York, but the grading of cotton has never become an exact science; that is, the very best of g owers still quibble a little, and there is no man that can grade a bale to-day and do the same thing to-morrow in the same way.

So this man in Texas who wishes to sell this cotton to the very best advantage, he has his cotton in Texas, and New York is "a fur piece away," as they say down South. Therefore, he has to take his thousand bales and put it on the train or on the steamer as the case may be, and in about four weeks it arrives in the port of New York. In the meantime the market has gone down. He has attempted to protect himself by selling that particular future against which he contemplates delivery, and the cotton arrives in New York, and he finds that six hundred bales of that cotton, on account of the foolish notions of the committee that has to examine it, have [not] been graded as high as low middling cotton, and therefore six hundred bales of his thousand bales are rejected. What would be much more like[ly] would be that six hundred and fifty would be rejected and three hundred and fifty received, and he finds himself in the position of being able to tender just three hundred bales, because contracts are in one hundred bale lots, and [of the] *six* [three] hundred and fifty bales of certificated cotton *that* [50 bales] is too small to be delivered, and he has *six* [seven] hundred bales of rejected cotton in the worst place in the world a man could have rejections. He can ship it to New Orleans or Houston and tender it down there, and if it had been rejected, it was in a very much better, more wholesome, and mercantile place than New York, because there are a great number of dealers shipping out cotton day after day. The fact that the New York Cotton Exchange rejects a bale of cotton because it is under grade or something does not commercially condemn it.

The CHAIRMAN. You would be in the false position of being in the greatest cotton market in the world with six hundred and fifty bales of cotton that you could not sell. That is a fact, because New York is a future market, isn't it?

Mr. LATHAM. Yes, sir. I have illustrated that for the definite reason that I pointed out to you as to why we consider the certification in the South desirable, but I want to call your attention to another thing along that line. We believe that in as much as this contract on which we are now dealing has been examined and found to be good, if you enlarge the places of delivery, you will enlarge the amount of business that is done, and instead of enlarging the grades as I believe Mr. Marcus and some others have suggsted here, that the natural situation itself would enlarge, but you would not get any cotton that would be subject to criticism below the grade of low middling. That would largely answer anything about enlarging the contract, if you enlarge at the same time the facilities, and therefore your committee thought that was desirable, and therefore your committee have agreed, not actually, but tentatively, that we would have no recommendation to make in so far as the change of the existing contract is concerned as to the number of its grades.

So I think that it was well to state to you some of the subjects that this committee has taken into consideration as we went along towards the warehousing of cotton in the South, which we believe is the thing that is desirable, if it can be worked out without hurt or prejudice to any class. We think it will make the handling of cotton easier and more economical and hurt nobody, and benefit the whole body politic. That is the way the committee has so far in the main been employed.

There are so many other things that the gentlemen are bringing up that I do not know whether you wish me to touch on them or not. The cotton business is a very highly technical business. It is the greatest and the furthest developed of any mercantile business in the world. It is done in the largest volume with the smallest of profit. There is nothing comparable to it. The cotton business is not a business of large reward. You talk about thousands of bales and how much money it takes to pay for transactions and things of that kind. The fact of the business is that the business of merchandising in cotton is not, taken on the average, a very gainful sort of occupation. I merely mention that to show you, not offensively or inoffensively against the cotton exchange, but to show you how highly developed the merchandising methods are. For instance, I know of my own knowledge firms that are worth half a million dollars that do from forty to fifty million dollars of cotton merchandising in a year. Of course, they have a credit higly established, and they could not do it without this insurance feature in futures of protecting themselves against the violent changes that sometimes take place. That proves to you how highly developed this business is, if they are legitimate. Of course, the outsider is going to stick his red nose in occasionally and take a hand. It has happened in everything else we do, in speculating in land and stocks or goods, iron and steel. It is a man's individual right to contract, to allow these gamblers to come in and trade in cotton. He has the right and he exercises it. I am quite in accord with the idea that that speculation ought to be confined to intelligent people as far as it possibly can, and I believe it is in a very large measure, but you can not absolutely keep it out, because that is a man's right to trade in the market, and he does not always step up to the captain's office with a written statement of what his intention is or what he has bought or sold.

The CHAIRMAN. Have you weeded out the bucket-shop business? There used to be a time—you remember it and I remember it—I would pick up a newspaper from down South and read of some fellow that had blown his brains out on account of cotton gambling and had wrecked the family fortune. You do not read that very much now, but didn't there use to be a situation of that sort in the South?

Mr. LATHAM. Yes, sir. The fatalities in that direction have been very great in the past two years.

The CHAIRMAN. Has not that been weeded out to a great extent?

Mr. LATHAM. That is a matter that is impossible to clean up entirely, I presume, because there are always a lot of ignorant people that you can not go around and appoint yourself a new guardian for every day. Down in my town we have a lot of cotton firms; it is a large cotton market, and there are four or five firms down there that have what is called private wires. They are members of the New York Cotton Exchange, but there is a fellow down there, I do not know who he is, that is taking orders for cotton in ten-bale lots, and I heard that one of the telegraph boys suffered a loss of $50 the other day. He is a boy fifteen or sixteen years old, and he has to go to work instead of going to school for the purpose of helping out the family income, but still this fellow gets hold of him and sells him ten bales of cotton and he *lots* [loses] $50. I was told that by another of staff of the Western Union Telegraph Company down there. There is no way of absolutely getting them out of the way, and the New York Cotton Exchange is in no way responsible for it, because if he had not got the boy's money that way he would probably have shot craps with him or played poker or taken it away from him in a dark alley.

Mr. HUBBARD. I wish you would tell the commission that there are no ten-bale lots sold on the New York *Stock* [Cotton] Exchange.

Mr. LATHAM. I suppose they know that.

The CHAIRMAN. Yes; we understand that it is a minimum of one hundred bales.

Mr. HUBBARD. I did not want them to get that idea.

Mr. LATHAM. That was a bucket-shop transaction, of course.

The CHAIRMAN. Dr. Stevens, have you any questions you would like to ask Mr. Latham?

Doctor STEVENS. Yes; I would like to ask Mr. Latham what he has to say about the proposition of bear manipulation, which you have heard around here, if southern warehouse delivery is employed.

Mr. LATHAM. I think that is a fear rather than anything else. I cannot see that the certificating of cotton in Savannah and Galveston would make the situation any more bearish than the certificating of it in New Orleans. The cotton is there, and it is going to be hedged somewhere, and I cannot see that there would be any more of a bearish influence in one market than in another.

Doctor STEVENS. What would you do at New Orleans under this system? Would you have deliveries at New Orleans, also deliverable at other points, or would you leave the New Orleans system unchanged?

Mr. LATHAM. So far as the tentative plan of the committee is concerned, it has been to include New Orleans as one of the points of delivery against New York contracts.

Doctor STEVENS. But the question I asked was intended to be directed to the question of what you would do with cotton deliverable on New Orleans contracts?

Mr. LATHAM. That is not anything that this committee has anything to do with, and they have not considered it at all, and have given no thought to it.

Doctor STEVENS. In other words, you might either leave the situation in New Orleans exactly as it is to-day as far as New Orleans contracts are concerned, or conceivably a system of southern warehouse delivery might contemplate a delivery on New Orleans contracts as well as New York contracts at other points?

Mr. LATHAM. I believe that it can be stated that in so far as any interference with the New Orleans Cotton Exchange by this committee is concerned, it has never been thought of in the slightest. This cotton, as you understand, is certificated now under the auspices of the Government. In other words, a bale of middling cotton in New Orleans is primarily middling cotton in Greensboro, N. C., or New York. The only possible objection would be that in the certification of cotton in New Orleans there might be a little bit of differences between the grades, and that would be up to the owner of the cotton to exercise his judgment upon and take the highest market. In other words, for the benefit of the commission, the New York differences between the grades are made in a composite manner, which is the average of ten markets throughout the South, and New Orleans is allowed to make its own classification. The conditions at some time or another might be different.

I believe there is one thing I would like to say, not that I think I have any remedy for it or that I have any confidence in anybody else having any remedy for it, and that is whether these differences between months are going to stand this way or that way [indicating up and down]: *I want to say and voice my personal idea, whether you have certification inside or outside of New York, and while on the average, and in which men are going to have differences between what is pointing down and what is pointing up, I think it is not thinkable to have them pointing forward* [?]. If they do, I could turn my office over to my junior clerks to-day and I could go to Switzerland for the summer and Florida for the winter, and the business could run itself. That would be well-nigh the millenium, and that is a thing, therefore, that I expect to occur occasionally when you have differences between months, in years of large production or very bad trade. Whether you certificate in the South or whether you do not, every year when you have short crops and there is a buying demand to sell commitments that will insure you, you will find your differences running down that way [indicating downward].

Mr. MARCUS. May I ask a question?

Mr. LATHAM. Yes, sir.

Mr. MARCUS. You say you have a premium in large crop years?

Mr. LATHAM. You are likely to have?

Mr. MARCUS. And then if you have a tremendous crop of cotton such as you have, why is the speculator willing to pay the carrying charge of a large crop and not to pay for a small one?

Mr. LATHAM. Well, sir, I think he does. I think the speculator is in the best market; you have got a market now that has gone up fourteen cents a pound in the past three months on account of depredations by the boll weevil and the short crop, and the speculator is in it, perhaps not as greatly as he was in the year when there was a delivery of eight hundred thousand bales in New York, but he is there.

Mr. MARCUS. I do not think you have answered the question, if you will pardon me. I asked you this question: That if in a big crop year the speculator, or whoever he may be who carries the cotton, is willing to pay the carrying charge—meaning this advance up this way [indicating upward] you are talking about, why does he refuse

to do so when you have a short crop and you have it that way [indicating downward]?

Mr. LATHAM. He does not refuse.

Mr. MARCUS. He is refusing on the face of the facts.

Mr. LATHAM. I do not agree with the premise. In the first place, the New York future market is dominated very largely by legitimate trade. I want to say that my firm are long on December cotton, without asking the gentleman what his situation is, because we have sold cotton, and we are holding those December contracts against what we expect to happen, and that is the only sort of decent protection we can get, to buy the actual thing that we have sold, and we can make somebody deliver us December cotton. It would be mighty nice to go and buy July, but that probably would not satisfy Mr. Johnson. The speculators are not the men, it is the spot people that have bought up these near-by months for the purpose of filling their orders. That is my idea about it, if that answers your question.

Mr. MARCUS. I won't press it, but I do not think it answers it. Still, I can not see it your way; but I won't press it.

Mr. LATHAM. It is very rare that cotton people ever do agree.

The CHAIRMAN. Mr. Clayton, would it be a hardship to have you back here at fifteen minutes of 2?

Mr. CLAYTON. No, sir.

The CHAIRMAN. You are the last man. I can not promise you a very large audience, but we would like to hear you, and we will take a recess now until 1.45.

(Whereupon, at 12.25 p. m., a recess was taken until 1.45 p. m., same day.)

AFTERNOON SESSION

The CHAIRMAN. You will remember that Mr. Clayton opened this conference, and he opened it by stating his position, upholding the idea of southern warehouse deliveries, and I think in all fairness the man who takes the affirmative side of a proposition should have the closing. So we will now hear from Mr. Clayton.

STATEMENT OF MR. W. L. CLAYTON

Mr. CLAYTON. Mr. Chairman, we have heard a great deal here about the producer and the producer's interests, and the way in which the producer would be affected by the changes in the contract that we are discussing.

I want to make the point that I do not think the producer is directly interested in this matter. I think he has a very great indirect interest, because I believe in a business like the cotton business, which is highly competitive, every improvement that can be made in the facilities with which the middleman distributes the crop will be a benefit to the producer.

The tendency of all trade is to shorten the distance, economically speaking, from the producer to the consumer. That is true where competition is free and open, as it is in the cotton business. The producer's interest, therefore, is an indirect interest. I do not think that of all the contract futures that are being sold the producers directly trade in one one-hundredths of one per cent of the total. Therefore his interest must be indirect.

There have been three major points made here against southern warehouse delivery. The first one is that large dealers would hold a club over the market by being able to accumulate in the South, at the four and five points at which delivery would be permitted, such a large quantity of cotton and throw it on the market at one time, that there would be no market for it and it would greatly depress the market.

One gentleman on the first day, on Tuesday, a very good friend of mine, *Dr.* [Mr.?] Rankin, for whom I have the highest respect, drew a rather terrifying picture. Mr. Chairman, we have all heard of the Colossus of Rhodes, which was one of the seven wonders of the world. He drew a picture of a Colossus of the cotton worlds. He would have a million bales of cotton which he would accumulate for the purpose of smashing the market. On one day he would slam it on the market and there would be fear and chaos.

Mr. Chairman, I don't think any one man ever owned one hundred million bales of cotton, I don't think any one man ever owned one-half a million bales of cotton at one time, and I should think if any man ever did own a million bales of cotton, that man would do everything in his power to protect the value of that property. To-day it would be worth one hundred and sixty-two or one hundred and sixty-three million dollars, and I can not conceive of a man taking a million bales of cotton, or half a million bales of cotton, or even a much smaller amount, and throwing it on the market in an attempt to greatly depress the market and make a lot of money out of the operation.

When I was a boy eighteen or nineteen years old and first commenced to study the future markets, I wondered why John D. Rockefeller never did corner the cotton market. It seemed such a simple thing to do. I have never gotten but one satisfactory answer, and that is that he had too much sense to try it.

The commercial history of the past is strewn with the commercial wreckage of men who have attempted that sort of uncommercial proposition. The buccaneers of commerce, like the buccaneers of the seas, are largely a thing of the past.

With the four or five points for delivery in the South—and I would favor five port markets in the South—it would be possible, Mr. Chairman, in a short length of time, to deliver a larger quantity of cotton than in the same length of time to deliver it in the city of New York. There is no denying that fact.

But whether there is a future market or not, whether you have a southern delivery or not, that cotton is there, and if nobody wants it, the market is going to decline to a point where somebody will buy it. It makes no difference whether it is delivered on contract or not, the presence of that cotton, and the not-wanted qualities, is going to depress the market until it gets to the point where somebody is induced to buy it. We saw that at the beginning of the war. You asked why the exchange closed. The exchange closed because there were no buyers of cotton. The wheat exchange did not close because wheat had to be had. The people were fighting in Europe and they could not raise wheat.

I remember the discussion at that time, the impression that the world could almost get along without cotton, that our consumption might drop [to?] four million or even to two or three million bales,

and we had a crop of fourteen million, and so it was thought by some that the price might go to almost nothing.

The cotton merchants of this country and other countries had sold during the summer large quantities of cotton, more or less largely to the mills of the world, for forward shipment. They had bought future contracts to protect those sales. As war was about to break and buyers commenced to disappear, the cotton commenced to drop in value, and the merchant who had made his sale to a mill at, let us say, thirteen cents a pound and bought his contract in New York as a protection, found his contracts, which is cotton, going down on him, and without any chance to make delivery to the mill.

In the case of our own firm, we had a great deal of cotton sold to Russia. We had no chance to deliver cotton to Russia. We considered that those contracts were absolutely worthless—contracts we had at fifteen or sixteen cents a pound—and we had bought these hedges against it. They were apparently going to five cents; not margins, but almost the principal sum was demanded. The exchanges had to close, Mr. Chairman, or practically every firm in the cotton business which had any considerable amount of outstanding contracts would have been ruined.

The exchange did close, and stayed closed for some two or three months, until an arrangement could be made to reopen it, which was done by a very splendid constructive act of the New York Cotton Exchange. They borrowed, I don't know how much, but two or three million dollars, and the members there pledged their credit to get that money and took care of these contracts which had been bought at high prices, and which had gone down, on account of the war, and against which the merchants and shippers were unable to deliver the cotton to the mill. They took care of these contracts and taxed themselves to repay that money to the banks.

It is of interest in that connection, Mr. Chairman, that a very thorough survey was made of the outstanding contracts on the New York Cotton Exchange by a committee which was appointed for that purpose. The nature of all these contracts was gone into, whether they were speculative, whether they were hedges against a sale to some mill, and if a sale to a mill whether it was a sale to a mill in Russia, to which perhaps the cotton could not be shipped, or whether it was a sale to a mill in England or New England or the South, or where.

The result of that was that it developed that about eighty-five per cent of the outstanding trades on the New York Cotton Exchange at the time of closing were legitimate hedge transactions. The remaining, something like fifteen per cent, was speculative.

The CHAIRMAN. Could you state that this broadly: That at that particular period a survey showed that eighty-five out of a hundred of the folks who were in that market as buyers or sellers were men who at the same time handled the physical cotton?

Mr. CLAYTON. Not necessarily eighty-five per cent of the identical persons, but eighty-five per cent of the identical cotton which was outstanding was held by persons who had bought and sold as protection against an actual transaction in cotton.

The CHAIRMAN. The reason I ask you is this: There are about three schools in the future trading proposition. There is the crowd that is against the future trading idea; there is the crowd that favors

it because of its hedging advantages; and then there is the crowd that says this—and that is what I am trying to get you to make a particular statement on if possible—there is a crowd that says, well, that is all right, the future market has come to stay and it affords a hedging advantage, but you can not have hedging unless you let the speculator in; the speculator is the man that keeps the market fluid. At that particular period, if your deduction is right, there were fifteen per cent of the transactions that were speculative transactions?

Mr. CLAYTON. Yes; that is right; about fifteen per cent.

The CHAIRMAN. You do not know what would have happened—or could you give me any idea—if the fifteen per cent had been absent?

Mr. CLAYTON. If the fifteen per cent were absent you would have wider fluctuations in the market. In order to have a big, broad market, in order to have a big, broad market in cotton, it must be permitted that people speculate in it.

In order to have a big, broad market and minimize as much as possible the movements, the fluctuations in the market, speculation must be permitted, because at the moment when I want to sell, say, a thousand bales of future contracts on the exchange, to protect a transaction in Texas yesterday, a purchase of a thousand bales of cotton, actual cotton, the quality of which I do not yet know, and I need protection against decline until I can see what it is and find the mill that wants that particular cotton, in order to have a market always at hand for those thousand bales futures, the speculator must be permitted to buy, because there may not be a hedger on the long side at that particular moment.

A hedger on the long side is a mill. For instance, Mr. Johnson here may have sold goods requiring a thousand bales of a certain kind of cotton. The market may be very active and it may require him a day or two to find just the kind of cotton he wants—a merchant who has it and will sell it. He wants immediate protection. So he telegraphs to New York to buy the thousand bales of futures. Now, it may be that the man that sold me a thousand bales of futures to protect my purchase in the South is Mr. Johnson. Now, there are hedging transactions on both sides.

The CHAIRMAN. Right there, if you please. You and Mr. Johnson are actually handling cotton. You have some in Texas and he is ultimately to get some at his mill.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. So both of you folks now are in the business as hedgers.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. Now, where does this speculator come in on the deal?

Mr. CLAYTON. The speculator comes in here. Mr. Johnson buys the thousand bales that I sell to him. Now, within two or three days he finds a cotton merchant who will sell him a thousand bales of even running identical quality that he wants. When he buys that he sells out the thousand bales of cotton bought from me. But I have not yet found a man who will buy the thousand bales of actual cotton which I bought, which I hedge by selling a thousand bales of futures. I have not even yet got the cotton. I bought yesterday to be shipped

next week from Houston, and it is a matter of three or four weeks before I know exactly what I have got and can offer it to the trade. So I am still short. He being long and wanting to sell his cotton, wants to sell his thousand bales of futures. He offers it in the market, and a speculator comes along and buys that thousand bales. I still hold the short end of it. I have sold it, but instead of the buyer being Mr. Johnson, it is the speculator.

The CHAIRMAN. There is a little transaction in there. Johnson has been long, he has bought, and now he is short; he turns short to the speculator, does he not?

Mr. CLAYTON. No; his transaction is then eliminated from the matter altogether, because he being both a buyer and a seller is out of the matter, and the trade then is between me and the speculator, and Mr. Johnson having first bought and then sold, is out of it entirely; he has no further connection with it.

The CHAIRMAN. His account is closed?

Mr. CLAYTON. His account is closed. Now the speculator is long these thousand bales. He bought it at thirty-two cents, say, from Mr. Johnson. The market goes up fifty points, we will say, and he is willing to take a profit, which is $2.50 a bale, or it may have gone down and he does not want to incur any more loss, so he wants to sell. Now another speculator, calling the first three parties A, B, and C and the second speculator D, comes along, a new man, and he buys these thousand bales, and then C (the first speculator) is out of it and the trade is between me and D. And that can go on almost indefinitely.

For instance, take the year 1921. I have a very clear recollection of it. We had a depression. Everything was going down. Cotton went from forty cents down to about ten cents. There was a succession of speculators there who went along down with that commodity and acted as a sort of cushion, all more or less long. One speculator would take a loss of two or three cents a pound and say, "That is enough for me." He would sell to another, and that fellow would take hold and it would get too hot for him and he would sell to another; and so when it got to the bottom, we had probably an entirely different set of speculators there from what the thing started down with. They all acted as sort of a cushion to ease the market down from forty to ten cents in a very short time. It was eased down in that way so it did not hurt very much any legitimate concern in the business.

The CHAIRMAN. Does not that answer my question as to who paid the insurance? A question that somebody would not answer. Did not the fellows who are holding on, and then dropping out as it went down, did not they pay the insurance for the hedges in that proposition?

Mr. CLAYTON. In that case they did, sir.

Let us take this illustration: Mr. Johnson, say, has bought a thousand bales of cotton and the market may go up, say, two cents a pound. Mr. Johnson has theoretically got a profit of $10,000. Actually he has not, because he sells out his futures at the advance, takes his profit, and must go into the spot market and pay that much more for his spot cotton at the time he sold his goods.

Now, I theoretically have a loss of $10,000. *Ten* [one] thousand bales. Actually I have not, because the spot cotton I have bought

has advanced and some spinner buys the spot cotton from me at an advance. So you have got there a protection on both sides and nobody has paid the bill. It is a protection between the two. They have made a sort of—as somebody expressed it yesterday—ad interim trade between them until they could get together and arrange the exact details of their spot transaction.

The CHAIRMAN. Of course, that is particularly true as it appeals to me, because in this last hypothetical trading transaction that you outlined here, which is very plain, you have made that very clear, the actual cotton is in there.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. You are actually having a commodity that you can see and weigh and touch?

Mr. CLAYTON. Yes.

The CHAIRMAN. And finally you and Mr. Johnson make a trade in which some cotton actually passes.

Mr. CLAYTON. That is right.

The CHAIRMAN. And it will nearly cancel out any fluctuations that are taking place in the future market at the same time.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. I can get that all right.

Mr. CLAYTON. To give you another illustration, if this part of the subject is interesting to you——

The CHAIRMAN. Yes, it is.

Mr. CLAYTON. In 1920 or 1921 we raised a large crop of cotton, over 13 million bales, and we carried over of that something over six million bales, taking it all over the world. There was a total supply of nineteen million bales. The world consumed a little over ten million bales. So our actual carry-over in the summer of 1921 was increased nine million bales. I believe if the future market had closed at that time, as they did during the war, that cotton would have gone as low as it did during the war.

We had a much larger surplus than we had during the war. We had depression all over the world. The mills had pretty good stocks of goods, in many cases the goods which they had sold the buyers would not take and threw back on their hands. The losses were very large. The farmer was more or less panic stricken. He had raised a rather high-priced crop and he could not afford to carry it; he had to sell it. Cotton in Texas, basis middling, I think, went to about ten cents a pound, and the merchants of the South bought thousands and thousands of bales of cotton, not only in the South, but merchants in Liverpool and merchants in Japan, bought this actual cotton and sold futures against it as a hedge.

Now, the speculators of the world largely carried those hedges and carried that cotton. It is pretty difficult in, let us say, Bombay or Shanghai, or some other far-off place, to buy American cotton if he has to buy the actual bales and pay for them and arrange to have them classed and stored and that sort of thing; but when he sees cotton go to ten cents it looks to him like a good investment, he wants some way to invest. During the war, when we had no exchange open, he could not do it. Some very rich people came down South, I remember two or three instances of the kind, where men came to us, cotton merchants there, and got us to buy the actual

cotton for them and put it in storage and carry it, and made a lot of money on it.

But that can only be done in exceptional cases. People way off, who have no connections and do not understand business can not do that. But when we have the great cotton exchange like New York and New Orleans, whose quotations are telegraphed all over the world every day, practically every hour of the day, where they have well-known firms of financial integrity, these people who want to back their judgment that cotton ought to go higher, can send their orders there and buy cotton for future delivery, and just as surely help in the carrying of the crop in times of depression as if they bought the actual cotton, because the cotton merchant buys the actual cotton—that is his business—and he sells these contracts for future delivery which the speculator buys.

The CHAIRMAN. Now, just that last element in there is one I am in extreme doubt of. I can see the man in Bombay watching the price of cotton go down to ten cents a pound and saying to himself that he would like to buy on the market because he believes it is going up. I can see him going to the broker, cabling in his order, and I can see the broker on your exchange over there buying for that Bombay man so much cotton. But where my mind does not travel is I do not think the Bombay fellow ever gets the cotton, does he?

Mr. CLAYTON. Well, Mr. Chairman, the actual bales of cotton he probably does not get. He has, however, his contract bought, let us say, in October for January delivery, which if he will hold, he does not have to say a word to anybody, if he will hold till the last day of January, his contract for a thousand bales of cotton, he is just as sure to get a thousand bales of cotton, carefully and properly inspected, weighed and inspected, by the New York Cotton Exchange, and classed by the United States Government classers, as he is of anything in life.

The CHAIRMAN. Let us carry that out a little. Suppose our friend in Bombay buys a January option and January 31st is *short* [long] and he has done nothing with his contract except to hold it. Then he would get a cablegram from you in New York saying, "I have 500 bales of cotton here in New York delivered to you." If the spot cotton had gone up then he could sell that 500 bales at a spot price, or he could sell it somewhere else, and he could take a profit on that transaction. Now, my mind goes that far. Now, the third step, that confuses me, is this: That the fellow in Bombay goes through the operation that we have just stated, but instead of taking his cotton and waiting until January 31st and then taking his cotton, he turns around and takes the other side of this, makes a contract with somebody else.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. He no longer buys, he sells this time.

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. And he does not get any cotton ever under that arrangement, he has sold his cotton.

Mr. CLAYTON. He has sold out that which he had; yes.

The CHAIRMAN. Then, now, how is he dealing in cotton?

Mr. CLAYTON. In this way, Mr. Chairman: If I sell a hundred bales of cotton to Senator Nugent for January delivery and January delivery comes around, and he wants to resell, he wants to get somebody else to take his place. He has got the cotton, there is no question about that, but he wants somebody else to take his place in the contract. He sells to you. You, therefore, must take the cotton. If you don't want it and sell it to some other person he must either take it or sell it to somebody else to take his place. I may still be the only man on the short side. I may not have gotten anybody to take my place, I may not want to deliver the cotton; but those to whom I have sold must receive that cotton or find somebody else to take their place with me, and they are sure to do it.

The CHAIRMAN. That is, in that case my friend in Bombay transferred the obligation of receipt to another man?

Mr. CLAYTON. That is all there is.

The CHAIRMAN. Now, here is another thing in there, and you can explain it, because you are making yourself clear. Is the fellow in Bombay doing anything more than dealing not in cotton but in the price of cotton?

Mr. CLAYTON. Mr. Chairman, I have a very strong feeling that he is dealing in cotton.

The CHAIRMAN. Is that so?

Mr. CLAYTON. Yes. I have that for this reason, as I have explained; that he has got a valid, bona fide, and enforcible legal contract there. He has bought a hundred bales of cotton. We buy cotton to be delivered to us in the future. We sell it to be shipped in the future. It is merely a future transaction, a transaction to be consummated in the future. That man in Bombay could not get a broker in New York to execute his order unless his credit was very good or unless he put up some money, so that any fluctuation in the market might be protected.

As a general thing he has to put up a good deal of money so that if he is not ready to take that cotton the broker can find somebody else who will take it. Even if the market has gone down, he has enough money there to protect him on the decline. This man in Bombay must either receive that cotton or find somebody else who will receive it in his place.

The CHAIRMAN. So you visualize, I see you do, and make very substantial that element of cotton in there. Now, what goes through my mind all the time is that really, as to the Bombay fellow and you, you two are in a guessing match as to what the price of cotton will be in January, and that you are not dealing in this white staple thing we see, but you are really dealing in prices, and that you are each making a wager on what that price will be, and it is not a transaction, a trade, but a bet. You have explained how you keep cotton in it, but cotton keeps slipping out on me. [Laughter.]

Mr. CLAYTON. Of course, in my case, if I sold against the purchase of actual cotton there is no question as to my side of it.

The CHAIRMAN. When you and Johnson get together it is as plain as day to me, because you have that cotton in Texas, and Johnson wants it up here, and there is the cotton and somebody has to store it, and you have to pay insurance, and something is liable to get in and eat it up, and there are a thousand things that keep a fellow thinking about that cotton and perhaps lying awake at night worrying about it; but about that Bombay fellow, you don't have to worry about bugs or fire or anything else, but in that case you are thinking what is the price, that is the thing you are thinking about, the price.

That is what worries me about the whole thing. When the thing has something in it that you have within walls, and you have to lock it up at night and look out for it, then I know that is a trade and the price is incidental. But when the price is the first thing and this commodity is a shadow somewhere, then I get awfully tangled up. If I was over there in the New York *Stock* [Cotton] Exchange and one of these near months arrived, I would be the first fellow to get squeezed. [Laughter.]

Mr. CLAYTON. I can not visualize the shadow or symbol idea. I never yet have sold or bought a future contract that I did not contemplate delivery. I do not mean necessarily that I have the intention of making delivery or receiving delivery, but I have always contemplated what the result would be in case I should deliver or in case I should receive, and I look at it as cotton, not as paper or a myth or anything else. It is really cotton, because I know on the other side of the contract is a man who is good for his obligations, and he has either sold me or bought from me, and I must keep my obligation with him. There is no possibility of our getting together and agreeing between ourselves that here is something we are going to settle on these chalk marks here, that we don't have to deliver or receive, there is no possibility of that sort.

It seems to me every element of the bona fide legal and [*en*] forcible contract is there. I have had to deliver too many times and receive, too, and I feel that the only difference between the contract for future delivery and the spot cotton is that one is in the future, basis middling to be finally liquidated at a certain point, under certain rules, and the other is a transaction in the present.

The suggestion has been made to me that if a man contracted to buy a building or a certain piece of property, real estate, and those contracts are often made, and to take delivery at a certain time in the future, and those contracts are made, I have known of them, why he would have a right to transfer that contract to some other buyer who was good for his contract.

The second point that has been made has been that it would be necessary——

The CHAIRMAN. Just there, if you please. Of course, that last statement is true, and those contracts are made. The validity of this contract you are talking about is a bona fides of the intention. You say that if you believe in your soul when you make one of these contracts that you are confronted with delivery or receipt all you have to do when you tell it to the judge the next morning is to convince him that you had that in your head and that contract is valid; but now, then, what is the test of your intentions, that is, the test of the validity of the contract? Your bona fides of intention.

Suppose you were up before some just judge, and he says, "Clayton, your intention was always to receive or deliver and I have to take your word foi that." But what is your record on that? Have you handled a million bales of cotton and have you only delivered fifty thousand bales? He would say, "Why, I don't think youi intention was very good."

Now, is that the gauge of this thing finally? Some day this thing is going to get into court and the judges are going to grind over that proposition. First, they are going to say that the basis of validity in that trading is the intention. Now, what is the test of intention? What do you say is the test of intention?

Mr. CLAYTON. I will answer it in this way. If I sell a thousand bales of futures, I do not think the test is what I intend; it is what the fellow that buys from me intends, and I don't know what he intends. I know if he wants that thousand bales and I can deliver it he is going to get it. Now, suppose we make a wager across the table and say we will be guided by the New York market on December. I will sell you a hundred bales of cotton December at 32 cents a pound, and on the 15th day of December whatever that December market is you and I will settle. That is not what takes place on the cotton exchange. I think that would be a purely gambling contract. That does not take place on the New York Cotton Exchange.

The second point is that it would be necessary for the buyer of the contract, where southern delivery is permitted, to maintain a large organization in the South in order to receive this cotton at different points, and that in this respect a large firm would have a great advantage over a smaller firm. I do not think there is very much in that argument. The cotton could only be delivered in warehouses at points in the South, warehouses that had been licensed by the New York Cotton Exchange.

They look very carefully into the proposition to see whether the warehouse is run by competent people or by honest people, about the rate of insurance, as to how much cotton they could store, and whether it is going to be carefully protected, and so on; so that any warehouse that got a license of that kind could operate and be depended upon as being the right sort of a warehouse.

They have a great restraint in this, in that if they do not do the right thing their license will be taken away from them. So that would be a hardship. And so I anticipate that there would be no question what we would have at these five *point* [port] markets, as we have, large warehouses, taking lower rates of insurance than New York warehouses, well managed by people who understand the cotton business, so that all a man would have to do who was receiving on a contract that was delivered at any one of these points would be—well, to begin with, the papers would all pass in New York, where the contract was made, and he would pay for his hundred bales, he would receive the warehouse receipts, the invoice giving the marks and the location, and he would receive even the samples of the cotton.

Now, any man—it makes no difference where he may be or how small he may be—at some point in the interior of Texas, for instance, I might have cotton, a hundred bales at Norfolk, which always has been the market where you can resell if you can not export it, or send it to New York—and if he wants to export that cotton it is certainly not necessary for him to have an organization at Norfolk. These warehouses in the South perform this service all the time for nonresidents. All he has to do is to take his samples and reclass his cotton as he wants it shipped, and give the necessary instructions to the warehouse, and forward the receipt to meet the position of the cotton. They will *back* [book] the freight for him, put it on the steamer, and get his bill of lading. They are doing it all the time. That is the way in which the spot-cotton business is done in the South. I do not think there is much in that point.

The CHAIRMAN. What do you say about the differentials?

Mr. CLAYTON. Between New York and the South?

The CHAIRMAN. New York and the place of delivery.

Mr. CLAYTON. It was my original view that there should be no differential, that the cotton should be deliverable at New York, Norfolk, Savannah, New Orleans, Galveston, and Houston at the same price without a differential. This is a very technical and a very important matter, and the more we study it, the more we go into it, the more light we see. We are inclined to not always have the same view we had in the beginning.

The CHAIRMAN. And there was a pretty strong argument made here yesterday on the other side for a differential?

Mr. CLAYTON. Yes, sir; I think there was. I have come to the view that the best plan is to accept a differential of the actual freight from the point in the South to New York, plus the actual f. o. b. charges at point of delivery—that is to say the cost of taking the cotton out of the warehouse and putting it on the steamer to send it to New York. In other words, if that should be 15 points and freight 35 the difference would be 50. So a man could make his delivery in the South; if he had sold his cotton, his Decembers, in New York at 32, he could deliver it in Savannah at 31.50, or Norfolk, or wherever it might be. I believe, everything considered, [—and] it has many phases, [—] that that is the soundest view to take.

The CHAIRMAN. Now, these near and far points.

Mr. CLAYTON. The matter of near positions—I believe that several gentlemen here have perhaps expressed not exactly what they had in mind in saying they thought we ought always to have discounts on nears and premiums on the distants.

My view on that is that we shouldn't have any premiums on the nears which are brought about by any uneconomic or unnatural or artificial condition. I do not believe that we can legislate values. I do not believe we can legislate differences in any commodity. All we can do is to put trading on as nearly a sound, normal basis as possible and let the market take care of itself. We can not legislate anything into it.

Now, the matter of premiums on the nears, in my opinion, largely depends on trade conditions. Of course, if you want to get premiums on the nears you can provide it, and New York at certain times provides it because it becomes necessary to ship the cotton there to fulfill the contracts, and it costs about $4 a bale to do it.

If you want to be extreme and put the delivery point in San Francisco, you would get a still higher premium on the nears. If you wanted to be very extreme and put it in Timbuctoo or some other very distant point, you would get a still much higher premium on the nears.

Regardless of whether we have southern-warehouse delivery or not trade conditions at times will make for premiums on the nears, and at other times it will make for discounts on the nears.

The CHAIRMAN. You say "trade conditions" there rather than "supply," do you not?

Mr. CLAYTON. Well, trade conditions and market conditions, the condition of supply and demand, the relation of the two. But, also, speculation at times has got a good deal to do with it.

The point has been made that in some years—as a usual thing in the short-crop years—we always have premiums on the nears. I have known short-crop years when we had big discounts on the nears. In the Brown-Hayne year, 1910 and 1911, we started out very early in the fall, and until some time in March, as I recall, with big discounts on the nears. The reason there were big discounts on the nears was that we had the hedge speculation.

These gentlemen came in and bought contracts in large quantities. They did not, just at the time when the crop was moving in volume, want to take delivery of that crop, they preferred to buy it off a little piece, and in October they were buying January or March. Their big concentrated purchase of those months lifted them up above the near months.

The farmer was selling his cotton pretty freely, so that as we went along we had these premiums on the distants and discounts on the nears. Merchants stepped in and bought cotton freely from the farmer and sold the distants as a hedge.

They carried that cotton until spring and a great deal of it they had to deliver to Mr. Brown and Mr. Hayne in New York.

When they had to deliver it we commenced to get premiums on the nears; but it was after the bulk of the crop had moved out of the way and the load on the speculator was not so heavy to take it. As it turned out, however, they did take 700,000 or 800,000 bales and common gossip has it that they lost a great deal of money.

At one time they had a good deal of money, but it is supposed that in the end they lost the profit that they had in the beginning in the transaction.

I fail to see how southern warehouse delivery in and of itself is going to give us any big discounts on the nears, if trade conditions do not warrant it. I think that is a fallacious idea.

Take, for instance, New Orleans. New Orleans has southern warehouse delivery. As some gentleman expressed it yesterday, it is a funnel, located there about in the center of the Gulf and of the Cotton Belt. New Orleans can control the Texas crop, control the Arkansas crop and the crop of Oklahoma, Tennessee and Alabama to a certain extent. I have seen in New Orleans at times as much as 400 or 500 thousand bales of cotton, at least 400,000 bales of cotton at one time. They have storage facilities in New Orleans for as much as 600,000 bales of cotton, I believe.

I have seen it at times, when we did not have big premiums on the nears and when this colossus did not gather it all up and dump it on the market, although it can be delivered there, that is where their delivery sometimes takes place, in the city of New Orleans. Take Liverpool. Liverpool has storage for over a million bales of cotton. I have seen a stock in Liverpool of 600,000 or 700,000 bales of cotton. At that particular time we may have had some discounts on the nears, but not heavy discounts, and very little cotton at all on contracts. There would seem to have been a golden opportunity for somebody who wanted to get this cotton all at one place and dump it on the market and break the market, but it was not done, and it is not done, Mr. Chairman.

I think the main trouble, of course, in the last few years, a good many of the difficulties that are mentioned here by merchants and spinners, all of us who are middlemen, our troubles have been due

fundamentally to the supply and demand getting entirely out of joint. In the last three years, counting the present year, the South, this country has grown, including linters, about 30 million bales of cotton, and at the same time will have consumed by the end of this year about 37 million bales of cotton, American cotton. So we have eaten in on that supply, that carry-over, I mentioned a moment ago, as being in excess of nine million bales. We have used it all up except probably at the end of the present year two million or two and a half million bales, which is too thin to go around, because the world must go from the end of July until October, and in the far off places it takes a long time to get the cotton out of the fields, ginned and transported. They must go for two or three months on that limited supply, and it won't go around; it won't go around without great curtailment of consumption.

The CHAIRMAN. Of course, there will be a decreased consumption.

Mr. CLAYTON. Certainly, sir, it must come; it is mathematically impossible that we consume this year as much American cotton as we consumed last year; it can not be done.

Now, this matter of southern warehouse delivery is largely an economical one. I would like to know whether Mr. Hogan is here.

A VOICE. Yes.

Mr. CLAYTON. If Mr. Hogan has some cotton in Norfolk that he sells to Liverpool it is lying in warehouse in Norfolk, and if he wants to ship it to Liverpool he does not send it to New York and put in store; but he ships it direct to Liverpool, at about 45 cents a hundred pounds. If Mr. Hogan sells December contracts in New York and ships that cotton to New York and tenders on December, and somebody else receives it on December and ships it *to* [from] New York, no cotton is consumed in New York. It must eventually go to Liverpool or Havre, or somewhere else. The charge on that bale of cotton, from the time it leaves Norfolk until it gets to its consuming destination, is about $4 a bale more than if he shipped it direct from Norfolk to that destination.

Mr. Chairman, there is the whole proposition. It is an economic question. It is a question of imposing on the commodity, in order to put it in New York and make the delivery something like $3.50 to $4 a bale expense, without adding anything to its value.

The CHAIRMAN. Do you want to ask any questions on that point, Doctor Stevens?

Doctor STEVENS. No; Mr. Chairman.

Mr. CLAYTON. If that difference applied only to the actual cotton that was shipped to New York and delivered it would not be so bad, but it must write itself into the contract price of the cotton which is bought and sold in that particular month.

Several speakers have made the point that premiums on the nears are, if anything, for the producer. I disagree that the premium is brought about by that kind of condition.

Take last October, for instance. The statement has been made several times that there were only 90 or 92 bales at one time in New York of certificated cotton ready for delivery, which was true. In the early part of September cotton in Savannah and Norfolk sold for some time at the same price as October contracts in New York, and at that time October and December contracts were about the same. October might have been a few points over December.

Now, what happened? As was perfectly logical, some cotton had to go to New York for delivery. Somebody had bought October contracts, somebody else had sold them and they had to get that cotton and take it to New York and deliver it.

Therefore, October contracts, around the end of the month, sold at about a cent a pound [—it] may have been 75 or 80 points, but somewhere between 75 and a hundred points [—] over December. But at the same time cotton in Savannah and Norfolk was selling a cent a pound under October.

So the spot basis in the South, instead of being even with New York, was about 100 points under New York.

That is about what happens every time. The premium on the nears in New York can not, if brought about by that condition, give the producer any extra price for his cotton except the twelve thousand or fourteen thousand or fifteen thousand bales that Mr. Hogan and others in the market might ship to New York. It makes, perhaps, for that little quantity of cotton a little better price than they could have gotten in Liverpool at that particular time, I will grant that. But the cotton is not consumed in New York. It must eventually go into competition with some other farmers' cotton in order to get into the channels of trade and be merchandised. And, moreover, the poor fellow who sold it, as Mr. Hogan says, he helps him out—I use Mr. Hogan's name because he is from Norfolk—he helps him out and gets the cotton up there to help that contract.

That is perfectly legitimate business. No quarrel at all about that. But the poor fellow who sold that contract, he may be in the interior of Texas, or he may be in Dallas, and it is not convenient for him to get the cotton up there. We will admit right now that he was unwise to have a contract for delivery in October and not provide himself with the cotton. He waited too long, we will admit all that. And, as some one said here the other day, he had a loss when he went into it. We will even admit that.

But he had to come in, having sold his Octobers against the purchase of cotton in the South, at 25 or 30 points over December, and he must come in and buy it back, and at a hundred points over December, and sell December at that discount, and when he buys it Mr. Hogan sells it to him and ships it up there. That man is hurt. And by so much as he is hurt there is subtracted from his ability to compete and keep in the cotton trade and keep the avenues of competition free and open.

We want a contract, I want a contract. I want to see a contract that will liquidate itself in the South, so that Mr. Hogan in order to deliver that cotton would deliver it right in that warehouse in Norfolk where it is, and then when it comes to the market of the world it will be picked up there and sent to the markets of the world at a minimum rate, without having passed through New York at a loss of $4 a bale.

(Some one in the back of the room made a remark about what it would cost in Norfolk.)

Mr. CLAYTON (continuing). You are quite right; it would cost something. I think in Norfolk it costs about 50 cents to certificate cotton, as against $4 in New York. It is something like $4 a bale in New York, but in New Orleans, if we have the cotton there in the warehouse, it costs about 50 cents a bale to do it.

The CHAIRMAN. Of course, the broad economic view of that is a trade between Norfolk and Havre and Norfolk and New York and Havre, the certificate cancels out, because the certificate was 50 cents at Norfolk, and if it is at Norfolk it would not be certificated in New York; that is, it would not be certificated in both places.

Mr. CLAYTON. Yes; that is true.

The CHAIRMAN. And you were drawing the contrast here between a southern warehouse delivery at Norfolk and shipment from Norfolk to Europe at a freight rate of so much.

Mr. CLAYTON. That is right.

The CHAIRMAN. And then you are contrasting that with a delivery of that cotton from Norfolk to New York and then shipped to Europe?

Mr. CLAYTON. Yes, sir.

The CHAIRMAN. Now, then, the contrast that you drew was a contrast between the expense of doing that from Norfolk across or Norfolk to New York across?

Mr. CLAYTON. Yes.

The CHAIRMAN. So now your 50 cents certification does not get into that contract?

Mr. CLAYTON. Excuse me, but it does.

The CHAIRMAN. Well, how does it?

Mr. CLAYTON. In this way. We are assuming that there are 100 bales of cotton in Norfolk that is going to be delivered on contract.

The CHAIRMAN. All right.

Mr. CLAYTON. Under the present plan it must go to New York and into warehouse and go through the necessary processes to get it ready for delivery, and then some other man becomes the owner of it and ships it to Liverpool. That is the New York route at present.

The CHAIRMAN. That is one certification.

Mr. CLAYTON. Yes, sir; one certification. Now, we get a change in our contract terms and we have southern delivery, and Mr. Hogan still wants to deliver it on contract. It costs him 50 cents a bale to deliver it in Norfolk on contract, and then the man fixes it up there and sends it direct to Liverpool. Is that clear?

The CHAIRMAN. Yes; but I think there has been one certification in Norfolk, or one certification in New York, and it costs the same.

Mr. CLAYTON. At Norfolk it costs 50 cents and in New York $4 a bale.

Mr. HOGAN. As a member of the New York Cotton Exchange I can take my cotton and send it to New York and deliver it much cheaper than I can to an outsider; because the cost of delivering it in New York is the commission I pay to a man for delivering it to me, which I also have to pay in Norfolk, if I were not a member of the cotton exchange. I pay for financing that cotton in addition to the cost of certification. Those costs have to be met in Norfolk or anywhere else provided you have to get an agent to do the work for you.

Mr. CLAYTON. To begin with, if you sent it to New York your freight rate is 40 cents a hundred pounds. You have to pick that up in Norfolk, load it on a steamer and pay 40 cents a hundred pounds. When it goes to New York it must be lightered to the warehouse.

Mr. HOGAN. It is included in the freight.

Mr. CLAYTON. All right. You eliminate that. It goes to the warehouse and is delivered to the warehouse, the warehouse people must put it in store. There is a storage that has to be paid. There is an inbound charge for taking it in and there is the storage that has to be paid. Not everybody in the South is a member of the New York Cotton Exchange, and they must get brokers in New York to handle these things for them, for which a commission is charged, and I can itemize it for you if you want me to.

Mr. HOGAN. Oh, no.

Mr. CLAYTON. But I have not got all the figures in my mind. I can get them, however, and add them up and furnish them. It works out about $4 a bale more expensive on that cotton, if it goes through contract delivery, and then to Liverpool by way of New York, than if you can deliver it to Norfolk and then send it to Liverpool. It costs about 50 cents a bale in Norfolk.

Mr. HOGAN. I do not grant that. It costs you a good bit of money to pick that cotton up in Norfolk and put it in the warehouse, and to pick that cotton up and handle it costs about 50 cents.

Mr. CLAYTON. Well, let us call it a dollar a bale; let us say it is a dollar.

Mr. HOGAN. I did not want you to make too bad a showing on it.

The CHAIRMAN. As I understand it, Mr. Hogan does not deny that the transportation of cotton from Norfolk to Havre or Bremen—let us take Bremen—is a cheaper transaction than the transportation of that cotton from New York to Bremen.

Mr. HOGAN. It might go straight to mills from New York, where all that freight would not be lost.

The CHAIRMAN. I am talking about Bremen.

Mr. HOGAN. Oh, you can ship it straight to Bremen cheaper than you can ship from New York, sometimes.

The CHAIRMAN. Let us get this, because it is quite important. Under a New York contract, if you could deliver from New York straight to Bremen and call it New York delivery, would it be cheaper than you can now on a New York contract send the cotton from Norfolk to New York to Bremen?

Mr. HOGAN. Oh, yes; much cheaper.

The CHAIRMAN. It is a cheaper proposition, of course.

Mr. CLAYTON. Mr. Chairman, there was a great deal said about warehouses in New York. I want to say that my firm has delivered and received a great deal of cotton in New York and that we have never had any trouble with warehouse facilities. We have always been able to get warehouse facilities. While I have heard rumors at times about difficulties in getting adequate warehouse facilities, I have never known of an actual case of anyone being prevented from making delivery because he was unable to get warehouse facilities. I think the New York Cotton Exchange, before they would let a thing like that happen, would put the cotton in some office building or do most anything in order to prevent such a state of affairs, and I don't think they could afford to let such a thing happen, and I don't think it has ever happened.

But a much more dangerous thing is the possibility of strikes. A strike might occur shutting out the delivery of cotton; such a strike might occur almost any time. We have had a great deal of trouble in that respect.

If we had four or five points in the South it is not likely we would have a strike at all of them at the same time, and so we would at least have some point somewhere for delivery.

The CHAIRMAN. The only point I had in mind was this. On the grain market in Chicago there has been a rule that delivery can only be made from a public warehouse, and it struck me that there was an inadequate supply of public warehouse room. If there is an inadequate supply of it, naturally that gives a man a chance on the delivery month to make it pretty lively for the other fellow, and I wondered if something analogous to that existed in cotton in New York. Apparently it does not.

Mr. CLAYTON. I have never known of it. Of course there is a possibility of that happening; but I have never known of a case where anyone was prevented from making delivery because he could not get the necessary storage room.

The CHAIRMAN. Of course, in deliveries, in forward trading, the fairness of the thing, you will grant and argue for, I know, is to keep all the conditions under which you made your bet free and open until you close your bet.

Mr. CLAYTON. Yes.

The CHAIRMAN. If they change the rules on you while you are playing poker you are in a terrible fix. [Laughter.]

Mr. CLAYTON. That is right.

The CHAIRMAN. What is there in the cotton business that makes an occasional witness talk about a squeeze, is it a change of rules somewhere?

Mr. CLAYTON. No.

The CHAIRMAN. Apparently it is not in the warehousing.

Mr. CLAYTON. No.

The CHAIRMAN. What do they mean by it then?

Mr. CLAYTON. There is no change of rules at all. It is simply a necessity on the part of the fellow to deliver cotton against his contract. He must go into the South and buy it, provide the freight room to get it there, finance it, put it in the store, have it inspected and sampled and classed, and go through all the operations that are necessary in completing a spot transaction—in deed more than the average spot transaction—and deliver that cotton.

Now, not in twelve or fifteen years have I ever known the New York market to go beyond the value of cotton in the South plus the expense of getting it there. So that the short, the man who is short, if he wishes to go into that market and get somebody else to take his place, Mr. Hogan, or somebody else, he can do it, and so far as I know has always been able to do it since I have been in business, at about the value of the cotton in Norfolk or Savannah plus all the expense of putting it in New York and delivering it.

The CHAIRMAN. Then the man who complains of being squeezed, is a man who is reluctant to follow that transaction and deliver his cotton, who does not want to do it; is not that what is the matter with him?

Mr. CLAYTON. Yes, sir. He does not want to do it and he wants to have an open market in which he can have somebody else to take his place to deliver that cotton on the basis of the values in the South, without having to write into the contract, without having to pay the other man this $4 a bale, or let us call it $3 a bale in order to be on the safe side, this $3 a bale about which we have been talking. Now, that $3 a bale in every month has to be written into the price, it can not be avoided, and must be done because the cotton will not be attracted to New York until that is written into the price.

The CHAIRMAN. Of course I can see, in what you say, that a very powerful man on any cotton exchange is a man who has equal facilities in his trading business in futures and in the spot cotton. I mean by that that a man who enters a cotton market, a future exchange, with ability to really put the cotton there, the actual cotton, is a fellow that you have to keep your eye on, because if you go into that market with no idea of ever touching the cotton, and merely let one cancel the other, if it ever comes to a test the fellow that is backed up with a little bale of cotton will crush you, because he has got something that he can tender, and the other fellow has got a contract that he may not be able to sell.

Mr. CLAYTON. That man who can do that always appears on the scene, Mr. Chairman.

The CHAIRMAN. He does, does he?

Mr. CLAYTON. Always. He is brought into action by the price advancing to such a point that he can afford to use his facilities in the South by buying the cotton and shipping it to New York and delivering it. The price gets him into the game, and he always cuts in when the man who has bought the cotton wants to draw him in. It is easy to do. He always appears at the right time.

The CHAIRMAN. Well, it is very rarely the case, then, that anybody who has actual cotton makes a complaint about a squeeze; is that right?

Mr. CLAYTON. Oh, no, sir; they often do. Merchants who buy cotton and sell contracts against it—for instance, in the fall a cotton merchant in the South will buy cotton and sell December contracts against it, for example, and assume he sells the December contracts. They are ruling about 40 points over spot cotton in Norfolk and Savannah, we will say.

Now, to begin with, that is a dangerous thing for him to do, in a sense. As was said here day before yesterday, he may be licked just when he starts, because he has sold cotton for delivery in New York at 40 points over its value in Norfolk and Savannah, and it takes about 80 points $4 a bale to pick it up in Norfolk and Savannah and put it into New York.

Now, you may say he is unwise, and he is not onto the game, and that sort of thing, but the pressure to do business, and the feeling of it—well, perhaps there won't be anybody there that is on the long side that is going to have that cotton brought up there, that he may find when the time comes, he may find somebody that will still trade with him. That induces him to go on and buy this cotton, and *he* [to] sell those futures.

Now, he also expects, when he gets his cotton in, that he will soon be able to sell it to a mill, and buy back his hedge, and he is through with it. But we get a period of poor demand, very little demand for the kind of cotton which he may have on hand, and he is forced to carry it and can not carry it except at a big loss, and he carries it with the hope that he can eventually work out of it, until he gets to November or December, and then if his December contract he sold advances a little over the cotton in the South and he is forced

to close out, or get somebody else to do it for him, and is getting somebody else to do it, he must pay something like 80 points over Savannah or Norfolk.

The CHAIRMAN. Now, is there any manipulation in the contract which brings that situation around on that man? You first said, in your reference to Mr. Rockefeller, that it was impossible to do it. Now, is there any way that fellow down there, who has made a bad guess—is there anybody up in New York that can make it extremely difficult for him to perform and make him perform at a loss; is it in the power of anybody?

Mr. CLAYTON. It is not in the power of anybody to make it impossible for him to perform or make it extremely difficult for him to perform. He has a contract and it is quite conceivable that he may perform at a loss.

Somebody said business is for profit and for loss. It is [not] always profit. So he may have to perform at a loss, but any prudent man will not sit there with a contract for December delivery until around the 23d of December to see what he is going to do about the matter with his cotton down in Texas or Louisiana or somewhere else. We dare not do it, if we have sold it to the spinner, if we sell December cotton to a spinner we must, along in December, look around and get that cotton and get it ready to put it under a bill of lading before the end of December, or we may have trouble.

A man who has sold the contract in New York should regard his contract in the same light as if he had sold it to a spinner; but unfortunately a great many do not do that; they wait, and around the end of the month there may be some congestion; there is a good deal of cotton that has been sold for December, perhaps, and he has waited a little too long, and that is where Norfolk comes in. Norfolk is the nearest point to New York, and so that is the place where they can buy the cotton and deliver it in the shortest length of time.

Mr. MARCUS. May I ask a question? The chairman this morning asked Mr. Cahill whether there had ever been a time when cotton had been demanded and was not delivered. I would like to know whether you know of any case where it had not been delivered, where it was a physical impossibility to deliver it; and if it was a physical impossibility to deliver it, what is the rule for closing out that contract?

Mr. CLAYTON. I think there were one or two cases during the war. I think my own firm was a party in one of those cases, in which on account of congestion and movement of war materials and that sort of thing it was difficult for the seller to deliver, and some arrangement was made. I have forgotten exactly what it was, but I think we took the cotton at Norfolk instead of New York or Fall River and gave a little extra time. I do not recall exactly about it, but that did happen.

Now, as to what occurs if delivery is impossible. In New Orleans if the seller has made an honest effort to make delivery of his contract and he is unable to do so, and he can show that he made an effort to do it; that is, that he had the cotton and it was tied up in a wreck or on account of a strike, or something like that, and did not get in in time, the contract is closed, invoiced back to him on the basis, if I remember the rule correctly, of the spot market on the day the delivery was due, plus a small penalty, about $1.25 a bale.

In New York it is a little different, I think, but it is pretty much of the same sort of an arrangement.

In other words, there are provisions to keep from crucifying a man in case something prevents delivery where he has made an honest effort to do so. That sort of thing is provided against. But the efforts of all exchanges, Mr. Chairman, are to keep that contract a contract in actual cotton, so that no man can ever feel that he can regard it lightly or that if he does regard it lightly that at the end of the month they will let him out in some way. They just don't do that.

The CHAIRMAN. Is there any provision in the rules of the cotton exchange that in the case of a corner the exchange or a commission may artificially fix upon a settlement price?

Mr. CLAYTON. No, sir; there is not, that I know of, in case of a corner. As I say, there is a provision in case a man tries to deliver and can not, there is a provision to treat him right; but I do not know any provision about corners.

The CHAIRMAN. Has there ever been a case where a committee of the cotton exchange has had to fix the price?

Mr. CLAYTON. No; I don't think so.

The CHAIRMAN. It is not analogous to grain?

Mr. CLAYTON. No; I don't think so.

Mr. CAHILL. The situation to which you referred some little time back, when there was some cotton undelivered, which you made provision for at Norfolk, of course, I know nothing about; but about that same time I think your firm, very liberally, made an arrangement with somebody in New York who, through some regulation of the Department of Agriculture, with which they were not familiar—and the regulation was this: A few words in the rulings, two of them prepared samples, and at the time there was an impression that if we delivered samples to the department and you had completed your delivery—but the department ruled that we must have delivered prepared samples.

It took a little time to do that, and as a consequence some firms did not have the samples prepared; but my recollection was that the cotton was all there, but because of their technical construction which perhaps required an extra day, and which would have compelled some, because of that construction, to default, when the proposition was put to your firm you were good enough to say, "The cotton is here and we expect to deliver it." That was the case.

Now, one thing more while I am standing up. In regard to the last few words I said this morning in regard to warehouse space, so many hundred thousand feet, so the commission will not get a wrong impression, that is in Jersey. Rather than have you think it was in the city of New York I make that statement.

Mr. CLAYTON. Mr. Chairman, the question was asked the day before yesterday about certain commodities in which there was no future trading. It just came to my mind that I might mention peanuts, cottonseed, broomcorn, and wool. I am pretty well acquainted with the cotton-seed market, and I have heard a good deal about peanuts. There was some question as to the function the cotton exchange was really performing, and I think that not only the

fluctuations in these commodities that have no future trading are much wider than they are in cotton, but also there is this condition in those commodities; that a p ice may be paid in one part of the territory that varies greatly from the price in another part of the territory, and that is one great function of the cotton exchange, a function the cotton exchange performs. It advertises what cotton is worth to the world.

During the war, when we had no market, even at the low prices of six or seven cents a pound, I knew of cotton in Texas selling for as much as a cent's variation in price. With the cotton exchange working that is almost an impossibility.

The CHAIRMAN. Did you ever give any thought as to why flax has not any future market?

Mr. CLAYTON. No, sir.

The CHAIRMAN. Is it not probable that it is because there is not enough of it to trade in? I catch that all the time here. Somebody, Mr. Glenny, of New Orleans, I think, tried to draw the distinction as to the use of a future market, or its failure to be used, on the question of perishability; but that is not very convincing to my mind. You have to have a lot of the same kind of thing to contract in futures; is not that true?

Mr. CLAYTON. I think so. I don't think you can have a future market, for instance, on Pima cotton in Arizona. You can not have a future market because the quantity is so small. There is not volume enough to make any trading in it; the quantity is negligible.

Now, Mr. Chairman, I believe I have nearly finished, but I want to say this before I finish. I heard several gentlemen make some remarks about a Bureau of Markets. The Bureau of Markets has had something to do with the cotton business nearly ever since I have been in it, and I just want to say that so far as the cotton merchants are concerned that I think I speak their minds when I say I believe thay are very well satisfied with the connection that the Bureau of Markets has with that phase of the cotton business with which they are concerned, and they would feel very sorry indeed to see their functions in any way curtailed.

I also want to say this before I sit down, and that is if I may take the liberty I want to compliment the Federal Trade Commission on calling this hearing.

When I first heard of it I doubted very seriously whether anything very much could be accomplished, where the subject is so technical, in a public hearing. I think I expressed myself in that way to some of the staff of the commission. But I have been very agreeably surprised. I think that a good deal of light has been shed on this technical subject, and nearly every branch of the cotton trade has been well represented here, and ably represented, and I feel that there should be constructive good come from this hearing, and I want to thank you, sir, for the very fair and impartial way in which you have conducted this hearing.

I also want to say that that part of your staff which has had the investigation of the business in the South, I have been very much surprised that anybody not in the cotton business for a long time has been able to so quickly grasp the fundamental details of the business as they have been able to do.

A gentleman said to me the other day, coming down here—I have forgotten who it was—"Well, one thing, we know a whole lot more about it than they do," in connection with the hearing, and I said, "Well, don't be too sure about that; they are very likely to ask you some pretty hard questions," and I want to say that in the last twelve months I have had more difficult questions asked me, questions that have made me scratch my head after them, by the staff of the Federal Trade Commission, than any cotton man ever asked me.

The CHAIRMAN. There is now in the United States Senate considerable debate running from time to time on the cotton futures act. Speeches made by many Senators show that they are very well informed on the subject. I can name a dozen Senators from the southeastern part of the United States who are very well informed, and they have made most able speeches on the question. One of the men, who is a frequent speaker and speaks with great vigor, is Senator Dial. Have you heard his speeches?

Mr. CLAYTON. No. I have read extracts from them.

The CHAIRMAN. Well, an extract will bring out his idea. He is insistant that that contract, as now practiced under the present law, gives an edge to the seller, the merchant seller, over the buyer. Now, I think you have testified on this point before. In conclusion, what is your opinion about that?

Mr. CLAYTON. I have talked with Senator Dial at great length about the matter. I think that Senator Dial is mistaken. I think he is mistaken largely because I do not believe he quite understands the functions of the contract. We buy our cotton from the producer basis middling, and we must take a good many more grades than those named in the future contract, which is ten, I believe.

So that in order to have a contract which will in any manner protect us, [h]edge us, we must have somewhere near the same grades deliverable in our hedge contract as we must take in our spot contract, our purchase contract.

Now, the men who are trading in this contract all understand it perfectly. They understand it just as well as the little dealer out in the interior of Texas understands when he sells me a hundred bales basis middling, that he can deliver tinges and stains and all that; they understand that. If I go to the broker and want to buy a hundred bales of strict middling or middling, I must pay more than for a basis contract, which gives *me* [him] the right to deliver all these grades which he has accumulated, and that is the only way of merchandizing it or distributing it; but if I must have a certain grade, which is sometimes the case, I must have a certain grade to fill my sales to the spinner, and go to him and say, "I want this grade," he charges me a good deal more than if it is a basis middling cotton.

The CHAIRMAN. Now, then, finally, can you tell us—nobody else will—what do they mean by a squeeze? [Laughter.] What is a squeeze? What do these men mean when they talk about a squeeze? I am quite interested about it, and I don't know.

Mr. CLAYTON. It is a desire, as evidenced in the trading price of the near month, on the part of the buyer of the cotton, to have the cotton delivered to him. Now, that happens in New Orleans sometimes. I have been both on the inside and on the outside of that in New Orleans. It happens there perhaps not so often as in New York. It can not be exactly of the same nature as in New York because the

cotton for liquidating the contract more or less naturally flows through New Orleans, which is a large spot market. But a squeeze in New York is simply the near month coming to that point on account of the buyer wishing to take delivery of the cotton, which will enable the man who sold to him originally, or somebody who is willing to take his place, to go into the South and buy it and deliver it to him in New York.

The CHAIRMAN. Did you say it just plainly to be: That it is the buyer calling for delivery?

Mr. CLAYTON. He does not have to call; all he has to do is sit still and wait, because the delivery must come to him unless the *rate* [holder] will sell out his contract.

The CHAIRMAN. Now, then, I caught running all through here—and I can not put this question so it is really intelligible, perhaps, but I caught running through all this argument and discussion that in the cotton trade there is an element of forbearness running between traders. Is that true or is that a figment of my imagination? That is, I mean, the cotton trade gets along largely because the fellows do not take the last eyelash from the other fellow; is that true or not?

Mr. CLAYTON. I believe it is pretty largely true.

The CHAIRMAN. That there is a good deal of forbearance?

Mr. CLAYTON. I think so. I do not think as a general thing there is a desire or intent on the part of anybody to hurt anybody else. It is so in the spot end of the business. As has been explained the cotton business is technical and there is a difference of opinion as to grade and staple and this thing and that, and it is rarely the case we ever find a man on the other side of the trade who is not reasonable, and that we can not work out an adjustment of our difficulties without going to court. A cotton man rarely goes to court.

The CHAIRMAN. I suppose there is enough genuine red blood, American poker-playing blood, to enjoy seeing the other fellow squirm a little?

Mr. CLAYTON. Well, I don't know that that is so. There come times when a man, for reasons of his own, for his own protection, must demand that the trade be kept, and kept on time, and kept in accordance with the terms of the contract. If we had only one obligation it might be different, but one obligation leads to another; you have made an obligation which you have to meet, and I have made an obligation to another man, to Mr. Johnson, and it passes on down the line, so there may be more than one of us in a squeeze.

The CHAIRMAN. Dr. Stevens, do you want to ask any questions?

Doctor STEVENS. Is a New Orleans squeeze usually less serious or more serious than one in New York?

Mr. CLAYTON. Well, it is almost impossible for the near month in New Orleans to go very much over the value of cotton in New Orleans or in the contiguous territory. Cotton can be sent into New Orleans over night from a pretty wide territory. We can get it from Houston to New Orleans in that time or within 18 hours, anyway. It is less severe on the shorts, as a general thing, to make delivery, than it is in New York, for that reason.

Doctor STEVENS. Would it be your position on southern warehouse delivery that squeezes in New York would be largely eliminated?

Mr. CLAYTON. Yes, sir.

Doctor STEVENS. Do you think that a squeeze on New York contracts with southern warehouse deliveries would be as violent as a squeeze at the present time at New Orleans?

Mr. CLAYTON. That would depend on conditions; but I do not think it would. I think that a contract where the deliverer has the right to deliver at four or five locations would liquidate itself with less difficulty than one where delivery must be made at only one point, no matter how big a point that was.

Doctor STEVENS. What would *by* [be] your opinion of the suggestion made here yesterday—and I think made also the day before—of using with southern warehouse delivery a New Bedford or northern mill delivery point?

Mr. CLAYTON. I don't think it would be wise, and my reason for it is this; that to begin with there is a great deal of cotton always present in the New England market known as rejections, cotton which southern shippers have shipped up there, and it has not come up to requirements of the contract with the mill, and the cotton is thrown back on the hands of the shipper, and he puts it in the warehouse and trys to sell it to somebody else, and there would be a presumption on the part of the buyer, if he knew he might get cotton at New Bedford, that that might consist largely of rejected cotton, cotton that the spinner would not take for some reason. I think that would introduce an element of uncertainty into the contract and have a depressing effect; it would be a depressing factor. Another reason is that the market up there is local, and if cotton is shipped up there to fill a contract and put in warehouse in New Bedford, and the buyer leaves it there, it has paid the freight to New Bedford, and that must be written into its value, and then the buyer must seek a market for that cotton. Now, if he can not find it in that immediate territory, he has either to ship it back to southern mills, or to pay the freight to the North, or he has to export it from a point that is economically out; it is out of the channel of normal travel.

Doctor STEVENS. Would you make any suggestions or have you any suggestions in mind with reference to any change whatever in the system of making quotations or differences, either one?

Mr. CLAYTON. No, sir; I can not think of any at the moment. I think the present New York system is the best I have ever known.

It is true, as the chairman has said, that if we give him the making of the individual quotations he will see that the average is all right. That is quite true. But the making of these quotations at these ten different points is in the hands of ten different widely separated committees, and it may be here and there one committee will not do its duty properly, it may be careless or thoughtless, that is the human element that it is difficult to get away from, but we have the safeguard of having the ten markets forming an average, and one of these that might not do it just right will not very greatly affect the average.

Doctor STEVENS. You would not apply the New York system then, to New Orleans?

Mr. CLAYTON. Yes, I would. I am glad you mentioned that, because I wanted to correct Mr. Butler's impression. He said that he thought I spoke in favor of New York and for New York only and not New Orleans; but I think it would be better to have the New York system applied to the New Orleans market for this reason.

If New Orleans future market served only the New Orleans trade, just the people in New Orleans, I think it would be quite proper to apply the local difference; but a man in Dallas *in* [may] hedge his cotton there, or a man in Atlanta may hedge his cotton there, people all over use that market; so I think that the differences which might apply in their particular section should go into the making of the difference at which they should deliver their cotton.

Doctor STEVENS. Do you think the employment of the southern delivery warehouse plan would tend to reduce the discounts on the distant positions?

Mr. CLAYTON. It would certainly prevent writing into the near months any uneconomical or unnatural premium, it certainly would prevent that. But I want to make this point clear: That it would not necessarily prevent premiums on the nears. And take the situation, which Mr. McFadden referred to, for whose opinion I have great respect. He said that he thought that to-day we had December about a cent over July. [He said] If we had southern warehouse delivery we would have it a cent or two cents under—one cent under, I believe. I don't think that would be the case. It is not the case in New Orleans. New Orleans, at the time he was speaking of, had July about 70 *cents* [points] under *July* [December?] in New Orleans. At the same time at New York we [had] July about a cent under *July* [December?]. If you go to Liverpool you would find the same thing, about two cents, and you go to Havre you find about the same thing. They have a pretty good stock in New Orleans now and it is increasing all the time. It is not only a stock there but in territory that normally goes through that funnel, flows through that funnel, a large stock.

So, if the matter of premiums on the nears depended only on having a stock somewhere, or, rather, the question of whether you did have premiums on nears depended only on the stock, we would have big premiums in New Orleans; but that is not the controlling factor.

Doctor STEVENS. I would like to ask whether or not there is any general theory on which the comparatively consistent discounts can be explained in cotton?

Mr. CLAYTON. Discounts in the distants?

Doctor STEVENS. Yes. In the same way you use the carrying charge to explain as a general theory the reason for premiums in the distant months.

Mr. CLAYTON. Discounts in the distants can happen in a number of ways. For instance, in a short-crop year, if there is considerable speculation in spot cotton in the South, a considerable holding of spot cotton by the farmers, and very little speculation in futures, you are almost sure to have premiums on the nears, and discounts on the distants; because there is a withholding of cotton from market at a time when the mills are endeavoring to get their supplies, and so the advantage is always with the holder, so we get a bigger demand for the present than we do for the future, and that lifts the value of the spot cotton for the present, which, in turn, lifts the value of the futures. That is one way in which it can happen.

Doctor STEVENS. But that is a theory, if I understand you, that applies to only one set of crop years. Now, the carrying charge theory, on which the premiums may sometimes be explained, is a general theory that runs or applies in every year; in other words it costs money to carry from one month to another?

Mr. CLAYTON. Yes.

Doctor STEVENS. And so, no matter whether the year is a small-crop year or large-crop year, the premium on the distant months should be sufficient to cover the carrying charge. Now, is there anything that you can suggest that accounts for the discounts of the distant months, that applies year in and year out?

Mr. CLAYTON. I don't know that there is. As Mr. Latham said, if we only had premiums on the distants we would have a millennium it would be so simple to do the business that anybody almost could do it. But let us go back to the premuim of the war. We had premiums on the nears in New Orleans right through 1917 and 1918, running sometimes two cents a pound over the next active month.

Make it a figure it stood at for a long time, January a cent over March, March a cent over May, May a cent over July. That condition existed for a long time. That was explainable, I think, by the point I made, that at that time the farmers were holding their cotton, and there was an enormous speculation in spot cotton in the South. There was a withholding from the markets when the mills wanted it. There was not much bull speculation at that time. Perhaps more speculation on the short side than on the long side. If there had been a very big bull speculation I think they would have lifted the distants up to the nears or over the nears. So I assume that there was not a big bull speculation, and the demand for this spot cotton all the time to fill contracts with the farmers and spot dealers—everybody in the South was bullish all the time and expected cotton to go to 50 or 60 cents a pound—and that kept the near positions always at a premium——

Doctor STEVENS. Do you think that the differential that you propose on New York, or which you have adjusted on New York, on southern warehouse delivery, *does* [will] that differential under New York be sufficient to compensate for the increased option of the seller regarding places of delivery so that there will be no decline in the value of the contract?

Mr. CLAYTON. In the value of the contract as compared with spot cotton in the South?

Doctor STEVENS. No; the present cotton contract.

Mr. CLAYTON. At times the new contract [will be higher] than the present and at times less, as represented by the price you see quoted in this way. At the present time if cotton is going to New York to satisfy contracts it will sell in the near months at about a cent over the distant months. That is, in the South. I can not conceive, under the new contract, that it will sell over 50 points difference in the South, because that is about what the differential would be, to include the freight and f. o. b. charges, so that is the stopping point. Now, at other times if there has been shipped to New York for the purpose of satisfying contracts, say, 75,000 or 100,000 bales, and the holder wants to be rid of that cotton and tenders it, we will have the New York market decline to the point where the cotton merchants can figure that that cotton is as cheap to buy and sell in the markets of the world as cotton in Savannah and Norfolk, so that market drops 25 or perhaps even 50 points under cotton in Norfolk and Savannah, and then spot merchants like Mr. Cahill and Hubbard Brothers and

others in New York, buy that near month, receive the cotton and merchandise it and ship it away from New York.

Doctor STEVENS. You would not favor, I should judge, then, any change in the form of the contract itself in reference to deliverable grades, either the extension of delivery grades beyond what we now have or an even-running contract, or a contiguous-grade contract?

Mr. CLAYTON. Before I answer that question may I go back to the farmer again for a moment?

Doctor STEVENS. Surely.

Mr. CLAYTON. I think that the proposed new contract—and this [is] the whole point I make about it—would give us a more constant parity between the value of the contract and the value of the cotton than the present contract. I think the fluctuations, the thing that we call the basis of parity between futures and spots, would be greatly reduced by the new contract.

Sometimes the new contract would have a greater value over spots than the old, the present; sometimes it would have a less; but it would have a mean value. It would stand at a closer parity all the time than the present contract, in my opinion.

Now, your question about the change of the contract. I do not claim that the present contract is absolutely perfect, I do not think that at all. My mind refuses to admit that anything is perfect and can not be improved. I remember very well [when] the Smith-Lever bill was proposed, I was one of those reactionaries that thought they ought to keep hands off. I have seen the error of my ways. I think it is a very constructive piece of legislation and I think that everybody in the cotton trade would raise up against going back to the condition that existed before it was passed.

But it seems to me that in the matter of the grades, as to whether we should have fewer grades deliverable or more, or whether we should have specific grades or contiguous grades, I really feel that it is not a matter of very great moment, and that we have now just about the right sort of contract in the matter of grades. I know there are a good many gentlemen in the cotton trade of long experience and good judgment, for instance, we have heard what Mr. Marcus said, who wish to have more grades deliverable, and there is certainly nothing to be said against the fact that strict middling spotted and middling tinged are perfectly merchantable grades of cotton; but I feel that the present range of grades will take care of 80 to 85 per cent of the crop, and that that is quite sufficient to prevent any undue fluctuation in the contract, because of not having enough range in deliveries.

It is not a matter of getting the cotton. Cotton is always present, to be had to deliver on the contract and liquidate it. It is somewhere. It is a question of moving it to the point where it is required, where it is required to be put before to can be liquidated. That is the trouble.

Doctor STEVENS. I would like to ask you if the proposition of either the contiguous grade contract or the even running contract does not go to the question of parity between spots and futures. In other words, is it not true that the contract of that character received by a buyer would be a more merchantable kind of contract than would the present delivery, which might be ten bales of every one of the ten deliverable grades?

Mr. CLAYTON. If you had only a hundred bales to receive it certainly would. If you had 500 bales to receive it would be in a much less degree. If you had a thousand bales to receive it would not make any difference, because with a thousand bales every dealer that wants to merchandise would receive it and he would get 50 bales *markets*, [marks?] and he would have no trouble in doing it no matter how many bales were delivered.

Doctor STEVENS. But under southern warehouse delivery you would still have a thousand bales and you might have 100 bales at each one of ten points delivered to you, or 500 bales at each of two points?

Mr. CLAYTON. Yes; that is true; and it does have more argument for southern warehouse delivery than it would at one point, there is no question about that. I still, however, do not believe it is advisable to change the grade. I think probably what would happen, if you had contiguous grades, is that the tenderer would be compelled as near as he could to deliver even running cotton, because to allow for the variation between his idea of the class and the Government classer's idea of it, if I had to make delivery of cotton under a contiguous grade contract, I would try to deliver even running middling in the hope that the Government classe[r]s would find nothing below strict low and nothing above strict middling, so *it* [we?] would have the three grades, even running, [strict?] middling or middling or strict [low?] middling, *or* [of] *even running grade*, [?] so it would come within the requirements of the contiguous grade provision, and that would be a hardship at times, and it would certainly write something into the price; I don't think there is any doubt about that. It would elevate the contract without, I believe, accomplishing any good.

Doctor STEVENS. In other words, you do not think it would improve the parity between spots and futures.

Mr. CLAYTON. Yes; I do. That is that [parity] maybe would stand fixed in the same relation that the other contract would be, only the futures might be a little higher that way, ten or fifteen points, but I do not think that would give the producer anything more for his cotton.

Mr. CAHILL. Will we not be likely to have contiguous contracts this year, will we not be able to receive strict middling and middling or strict low middling and low middling?

Mr. CLAYTON. That is right.

Mr. CAHILL. You would receive the lower grade.

Mr. CLAYTON. We would receive the lower grade.

Mr. CAHILL. This year?

Mr. CLAYTON. Yes; that is right.

Mr. CAHILL. I thought you might bring that point out.

Mr. CLAYTON. That is true, but you could deliver strict low middling and you might get a range from low middling to middling; but you would not try to deliver your middling because you might have rejections. You don't try to do that now in practice. I don't think the fact that you get low grades would make much difference in the construction of the contiguous grade feature.

Mr. CAHILL. My idea was that without asking for it we may get it this year if we get any cotton.

Mr. CLAYTON. Oh, yes. I did not see your point. Without the contiguous grade rule you could probably get those grades anyway,

because you are not likely to get much middling and above, it will [be] middling and below. There are only three as they are, middling, strict low middling, and low middling, and that is what any receiver after December anyway would get on the contract.

The CHAIRMAN. Any other questions, Doctor Stevens?

Doctor STEVENS. That would be likely to be true in almost any year that the crop ran in a certain condition, would it not?

Mr. CLAYTON. Well, it would very likely be true with the ten-grade range only. Last year it was good grade, and the year before it was not, and the year before that it was poor. So almost any year it would be likely to be true.

Doctor STEVENS. You do not think that the contiguous grade contract would elevate the future more than a very few points, do you?

Mr. CLAYTON. I think it would vary with conditions. At times it would be 15 or 20 points, probably.

Doctor STEVENS. It probably would not run as high as 50 under any conditions, would it?

Mr. CLAYTON. I don't think so.

The CHAIRMAN. If that is all, we thank you very much, and all this record has been taken stenographically and will be available. We will make a study of the record. This closes the hearing, gentlemen, and we thank you all.

(Thereupon at 4.25 p. m. the conference adjourned.)

WASHINGTON, D. C., *December 15, 1923—10 a. m.*

Hearings in the above entitled matter were resumed at 10 o'clock a. m.

Present: Commissioners Thompson (chairman), Murdock, Van Fleet, and Nugent.

Senator Dial appeared before the commission.

The CHAIRMAN. Let the record show that this is a reconvening of the hearing in response to Senate Resolution 262, introduced by Senator Dial March 16, 1922, and Senate Resolution 429, introduced by Senator Smith on January 29, 1923.

Let the record also show that Senator Dial was not present at the hearings at Washington on these resolutions that began on November 6, and that he has since asked that he might come before the commission and have a hearing on this date.

Senator, we will be glad to hear from you on anything you have to say.

Senator DIAL. At the hearings you had here on November 6, 7, and 8, I was in South Carolina and was ill and could not get here. I was very anxious indeed to hear the views of the gentlemen who appeared at that time. Since that time I have read, however, the statements and speeches that were made on those days, of most of the parties who appeared. I particularly studied the statements of some of the parties in each group, and I practically read all of what was stated.

I was very much impressed with the absence of the real parties in interest, as I see it, in this matter, to wit, the growers of cotton. I did not find that his case was presented as strongly as I thought it ought to have been. In fact, I believe no real grower of cotton was present. Some representatives of organizations which handled cotton was here, but to get down to the actual producer, he was absent, and he is the man that I am trying to represent.

I have appeared before you gentlemen on different occasions in the last couple of years on this subject, and I have no desire now to repeat what I said upon those occasions, but I want to say that I am more strongly convinced than I have ever been of the correctness of the position which I then took. Of course it is unnecessary to repeat now or to go into detail as to those matters.

The CHAIRMAN. Senator, there was one question that I would like to hear from you on that was brought up in those meetings, and that was the attitude of the grower toward, I think it was, the southern warehousing problem.

Senator DIAL. Yes. I will come to that. Allow me just to go on a little bit and we will come down to the point.

The CHAIRMAN. Very well.

Senator DIAL. I want to say in this connection, before we get to that, and repeat again, that I am not here fighting the exchanges. Exchanges might serve a good purpose under a proper law, but I am now fighting, with all the power that is in me, the mode, the manner or plan, or the method that fixes the price of our spot cotton; that is, fixed by the exchanges.

Furthermore, I am not criticising my colleagues in Congress and our predecessors in Congress, but I feel that this condition has gotten where it is without blaming any person in particular, but it is a system that is unbearable longer by the southern growers of cotton.

This is not a sectional question. It is a national question or an international question. Every man in the United States is interested in it more or less.

Now, we will get down to your point. As I gathered from the reading of this last hearing you had, that resolves itself under three heads. The first was the future contracts. The next was southern warehouse delivery on contracts. And then the method of fixing the differential between the prices of the different grades of cotton.

I will take the second proposition, as to southern warehousing. This would appear at first thought to have some merit in it, because the cotton is grown in the South and a large number of mills are located in the South and it would seem with some degree of reason that it would be advantageous to buy cotton on contracts and deliver it in the South close to the mills, or to the mills, and therefore save freight to or from New York or New Orleans. To my mind, however, all that would play directly into the hands of the speculators, and would put the price of actual cotton down to a very great degree. If you will notice the papers, usually the price of cotton goes up in New York near tender day. That is done, according to my view, because they can not get sufficient cotton there to tender on contracts, and therefore the price will go up. If the seller of the contract had

a right to tender it all over the South, there being so much cotton there, the price would go down, for he could tender it with much greater ease, and thereby keep the price down, particularly under the present contract, where the seller has a right to deliver any one of ten grades on contracts.

So I think that it would be almost ruinous to the cotton grower. I am unalterably opposed to that, certainly unless we revise the whole system, and I do not know but what I would be opposed to it then. In other words, the place of delivery fixes the price in a great majority of commodities. You can sell potatoes, I imagine, in Maine cheaper than in Washington, because they are raised there. Now, as to the——

The CHAIRMAN (interposing). Before you come to that, Mr. Murdock, would you like to ask any questions there?

Commissioner MURDOCK. No.

Senator DIAL. Mr. Murdock, you catch my point, there being a great supply of it there? Of course, it would bring less in Canada than it would in New York, but if you are going to allot the habitat, as it were, in New York, there is where the contract is made, let them deliver according to that contract there. I have not studied it with a view of the legal aspect, but I doubt the legality of that propostion. I do not know but what you could get in there with your State laws, and I am going to fight that proposition on every conceivable ground in the Senate. They will never get a bill through if I can help it, unless and until we change the present law of future contracts, and I will raise every legal and constitutional objection which I can. I doubt very much the legality of that propostiion.

Commissioner MURDOCK. It would be well for you, inasmuch as this is brand new, this point as to the legality, to put into the record something to indicate just the reason you think it is illegal. That is new to us.

Senator DIAL. Well, it is new to me, too, to be perfectly frank with you, but I thought of this proposition seriously the other day and decided to mention it here. It is no new idea—of southern warehouses. Since I have been in the Senate gentlemen have visited me from the exchanges, and they have insisted most strenously upon that proposition. One man stayed here weeks a year or two ago, and he stayed in my office until he got to be almost a nuisance, trying to persuade me to agree to that proposition. I wanted to be very polite, but I would not consider it for a second. I am a lawyer, but I have not studied this out with a view to making a speech on it. That point occurred to me the other day as an additional objection.

Before 1914 there was no national law governing future contracts. The South complained since the Civil War down until 1914 before they got this law passed. During that time every Southern State, including Virginia, with the very small amount of cotton raised there, passed what are known as antibucket-shop laws, trying to get at the evil of the future contracts. As a boy I heard my father complain, up until the time he died, about the injustice of the future contract, and that it depressed the price of actual cotton. It was doubted in those days whether Congress had any jurisdiction over the subject matter at all. It was argued that it was a State matter and there was no provision of the Constitution authorizing Congress to take

charge of this matter. But later it has been held, or at least conceded —I do not know whether it has been held, but it has been at least tacitly settled—that Congress has jurisdiction over the subject matter under three clauses of the Constitution, to wit, the post-office clause, the interstate-commerce clause, and the taxing power. What decisions have been made I am not fully up on this morning. Perhaps there have been some decisions, and I think there have been. But my recollection is it is a pretty narrow question, and particularly under the clause or the provision of the Constitution that this particular law is passed, to wit, the taxing power of the Constitution. If you will study this act——

The CHAIRMAN (interposing). Which act is that?

Senator DIAL. The act of 1914, the act fixing the present future contract law. If you will study that act you will see that it is not intended as a revenue measure. It purports to be a revenue measure, but it exempts practically everything under it, and it is done, I take it, in order for Congress to get jurisdiction of the subject matter. It taxes certain kinds of contracts, and then exempts, etc. I somewhat doubt the constitutionality of this act, but I am not here attacking that. I am not raising the point. In fact, I prefer to soft-pedal that. I am willing that Congress should have jurisdiction. We people in the South wanted Congress to have jurisdiction, because we, the southern States, were unable to cope with the evil, and we thought Congress was all powerful and could do it if it would, and do it in the proper way. I am not opposed to Congress fixing the law, but I want it to fix an honest law, a definite law, a mutual law, a law which is like the law of any other contract in the world. That is all I am asking Congress to do, and then we will be satisfied. I think it ought to take jurisdiction of this subject matter, but if you are going to change it and have delivery in the South, I do not know what section you would bring it under, and you would run against snags, and I would raise every possible objection I could.

The CHAIRMAN. I might say that at the hearing here, in order to develop the thing fully, we asked Dr. Walker and his assistants if they would care to ask any questions, and so we did develop it very fully that way, and so I am going to ask Dr. Walker if he has any questions that he would like to ask.

Doctor WALKER. No.

The CHAIRMAN. Or Dr. Stevens?

Doctor STEVENS. Yes; I would like to ask Senator Dial, in view of the Supreme Court decision on the *cotton* [grain] futures act, in view of the holding of the court in that case, if it would not be true that Congress has jurisdiction under the interstate commerce power, and if that was *done* [so], if it would not be true that on the basis of that decision of the Supreme Court, that that act would probably be upheld under the interstate commerce power, although it might be unconstitutional under the taxing power?

Senator DIAL. Possibly it would. As I said, I have not studied it with a view of giving you a legal opinion, but these different provisions arose in my mind the other day when I was reading the transcript of the hearings down here, where the exchanges put in the system of delivery in the South; and it occurred to me then.

I was reminded of the great doubt about this act at the time it was passed. The most illuminating opinion I have ever read on it was that of Mr. Caffey, I think it was. Mr. Caffey was attorney for the Agricultural Department, and he made a speech before the Alabama legislature, I believe, or some organization in Alabama. It is a very long speech and I have not read it for a great many years, but I suggest that if you gentlemen would like to read it I will be very glad to get it for you; but in that speech he said this bill was a mere start, and probably amendments would be forthcoming at an early day. Possibly it might be, Mr. Stevens, but I think changes in any way at all, you would run up against a great many different objections. If the people want to go out and buy cotton they can do so, but you ought not to make it any easier on the exchanges to depress the price, and that would depress it. I notice in these hearings *where* [that] pretty much all the spot people who attended did not want that done.

Doctor WALKER. May I ask this question? It is your view that southern warehouse delivery has a depressing effect on the spot price, applying merely to this period when there is a strong demand for cotton to tender on contracts, or generally?

Senator DIAL. I think it would tend to put the price down all the time.

Doctor WALKER. Even apart from the secondary demand for tenders on contracts at particular months?

Senator DIAL. Yes. If you make it easier for them to tender the cotton, of course the price would come down.

Doctor WALKER. I can see how that would apply at the time of the month for delivery on particular options, but how would the geographical element enter into reducing it at other times?

Senator DIAL. Because the cotton is raised there, and there would be more of it there than there would be at New York, and it would be easier to deliver it on the contracts.

Doctor WALKER. Would not that depend on whether there was a difference in the price at which cotton should be taken on the tender, allowing them their differential?

Senator DIAL. No; I do not think so. Another thought just occurred to me there.

Doctor WALKER. I had not an opinion on that. I just wanted to get your judgment.

Senator DIAL. No; it would depress the price, I am satisfied, beyond all question. My own opinion—I do not need their opinion, but I know from their anxiety to do it, it is wrong. I would say that that would be sufficient—I mean New York.

Doctor WALKER. But the principal representatives were against southern warehouse delivery.

Senator DIAL. They were divided at these hearings.

Doctor WALKER. Yes; there were some on both sides.

Senator DIAL. Yes; but I do not have to take my views from them. Common sense would tell me, gentlemen, that you can deliver wheat cheaper out where it is grown than you could in Boston or somewhere else, and if the contract allowed you to deliver there where it is *from* [grown], the great quantity there, you would put the price down. Mr. Murdock, do you catch what I am driving at? You can take potatoes, or anything else. That would be my view about it. This would be the case unless you amend this law, because the seller of the contract would have a right under the present law to deliver all of that contract in the South in any one of the ten grades that he saw proper. Not having enough in New York of the kind of the ten grades, they keep the price a little bit higher, but in the South he could go around and hunt up the other grades much easier than he could do in New York, and therefore the price then would be down. You give him so much latitude. If you had a fixed quality, then there would be more force in the argument that it could be delivered in the South.

I think myself that a mill ought to be allowed to buy its contract of the kind of cotton that it needs, and say to the exchange member, "Give me my cotton," and know the grade that it was going to get, but if you allow the seller the right to deliver any one of the ten grades down there, he will with greater ease and with latitude and with freedom, sell contracts and say "I have got a right, if I can not get the quantity in one grade, I will go out and get it in another grade;" and therefore you would have a greater abundance of supply all the time. You give him the whole production to select from and that, to my mind, is not the right thing to do.

Doctor STEVENS. Then your objection to the southern warehouse delivery system is based primarily on the fact that it would put down the price only in the event the contract is not specific?

Senator DIAL. No. I think I would be opposed to it even if it were specific, but I am unalterably opposed to it now, with the latitude in the contracts.

Doctor STEVENS. But your objections would be weakened if you had a contract for specific delivery?

Senator DIAL. I admit there would be more force in the argument then. I admit that, but I won't tie my hands now, because I am going to keep all the lassos off of me I possibly can.

Doctor STEVENS. I simply wanted to get your opinion on it.

Senator DIAL. I do not want anybody in the future to say that I misled anyone, because I am fighting this thing here, and I think it is worthy the attention and the time of every man in Congress until it is corrected. There never was an engine of confiscation greater than this before. Unfortunately the people in the South do not understand it—very few, indeed. As I said before, though, there would be some semblance of fairness in the proposition if the mills in the South could sell their goods and contract to buy cotton, and then to have the cotton delivered down there at the mills, if they knew the kind of cotton they were going to get, that would serve somewhat a useful purpose. The man who ought to be looked after, though, is the farmer, and before I forget it, these hearings here the other day referred to this present contract as a merchant contract. That is not bothering me much. The merchant can take care of himself. The farmer is the man we want to take care of, and that is the reason I am here to-day.

I am afraid that perhaps the tendency was to draw your minds from the producer and stop at the contract, and I think about the contract itself, of and within itself, without looking at the effect

of the contract upon the actual grower of the cotton or the spot cotton itself—the actual cotton, I mean. I mean the real cotton. So that I am here now to extend that thought to the third party, who is affected by the contract, or the third implied party, or the third outside party, the quiet party, the party who is really affected.

Doctor WATKINS. This suggestion that southern warehouse delivery would mean a lower price on the New York futures I think can not be questioned. The price would be lower on the New York futures on southern warehouse delivery than where delivery is required in New York. The reason for that, of course, is that the Southern price is less than the New York price, and the price on a New York contract on southern delivery would be a southern price.

Senator DIAL. That is so.

Doctor WATKINS. I am wondering whether the price to the producer would have the same relation to this southern price on the New York contract that it has to the New York price on the New York contract. I mean, if the producer gets so much under or above the future price, would that mean on or off the future price, the same as when the price on the New York contract indicates a southern price?

Senator DIAL. Well, it would not keep up regularly, perhaps, but the tendency would be downward all the time. It would be a pressure on the price. There is not any question in the world about it. The tendency would be downward; always downward. There is no doubt about that.

Now, if there are no other questions, I want to come down now to that differential. As to the method of getting a differential under the customs as you all know, originally, before the law, if the buyer and the seller can not agree upon the differential, the exchange appointed a committee to ascertain that, or to fix that, rather. That was objected to and complained of, and the present law undertook to correct it, and adopted a method of directing the Secretary of Agriculture to ascertain the difference. That is, if middling was not tendered, and the seller, exercising his option to deliver some other grade, and the buyer and the seller not being able to agree upon the differential, they now under the law appeal to the Secretary of Agriculture and he ascertains the price that the grade tendered is bringing in ten spot markets, and that is the price at which the settlement must be made. That system has been heralded abroad as a great benefit to the farmer, but that is without merit. The Secretary of Agriculture does not fix any price. He merely ascertains what the price is or what that particular grade was bringing. You had just as well say let the chairman's stenographer ascertain it as the Secretary of Agriculture. That was a mere sop to the farmer, a camouflage, and no merit in it. I do not see any particular objection to it, however, as it would be said that if the purchaser has to take any other grade of cotton it will be fair for him to take it at the market price. That is about as fair as anything else under the law, but it is not right, nor what it should be. The purchaser might be criticised for not being willing to pay the market price for the cotton, but if he could not use the particular grade of cotton that was tendered him, he could not want it even at the market price. He should be allowed to get the kind that he needs. Every-

one should be willing to pay the market price for what he wants, but he should not be forced to take something that he can not use, even at the market price. If my idea should prevail, there would be very little room for dispute on this particular point, because I hope to limit the number of grades that are tenderable, and I think perhaps the market price would be at least passable.

Now we have touched on the southern warehouse delivery and we have touched on the differential.

The CHAIRMAN. Are you ready now for questions?

Senator DIAL. Yes.

The CHAIRMAN. Any questions, Mr. Murdock?

Commissioner MURDOCK. No.

The CHAIRMAN. Dr. Walker?

Doctor WALKER. No.

The CHAIRMAN. Dr. Stevens?

Doctor STEVENS. No.

The CHAIRMAN. Senator Nugent?

Senator NUGENT. No.

The CHAIRMAN. Then I guess we can proceed to the next subject.

Senator DIAL. Now, gentlemen, I just want to refresh your memory a little. My contention is that the price of the future contract practically fixes the price of spot cotton. That being true, that contract should be an honest contract, a practical contract, a definite contract, a mutual contract, just like any other contract in the world. This contract is revolutionary, anarchistic, with nothing similar to it in the laws of merchandise or the rules of common sense in the world. It starts off on the wrong basis, to wit, allowing the seller of the commodity to select the quality for the purchaser. I know of nothing similar to that.

It is wrong, in the next place, in allowing the seller so great a latitude from which to select, to wit, ten grades of cotton. The contract is misleading, false representation, and deceives the whole public. The contract is on the *basis* of middling cotton, with the right of the seller to deliver any one or all of the ten grades, with a discount below and a premium above middling. The impression that this contract makes on the public mind is that it is for *middling* cotton, and this is a falsehood. I do not say it viciously, but that is the result of the quotation.

Let me illustrate. A man has cotton in the South. The buyer goes to him and says, "I want to buy your cotton. What will you take for it?" He says, "I will take"—for instance—"35 cents"—meaning he will take 35 cents for his middling cotton. The buyer says, "You are out of line. Here is a quotation just a few minutes ago from New York of 34 cents, and you will have to come down." The impression that is conveyed is that that means 34 cents in New York for that current month for middling cotton. Under that quotation the buyer does not know which of the ten grades of cotton will be delivered to him, and therefore he would not pay as much for that contract as he would for it if it provided that middling cotton should be delivered.

Commissioner NUGENT. You are speaking now of the purchase of the cotton on the farm?

Senator DIAL. The future contract. I am showing the effect of the future contract on the actual transaction on the farm. The reason

that the price of the actual cotton is not higher is because here stands the would-be purchaser, with the New York quotation in his hand, hence that proposed purchaser will say to the owner of the actual cotton, "You will have to come down." The owner of the cotton, believing that quotation to be for middling cotton, would naturally say, "I am too high. I will come down and take less for my cotton." By that process the owners of the actual cotton are induced to part with their cotton for less than they would if the quotation were a definite quotation.

Let me illustrate. The chairman goes to the grocery man and tells him to send up ten dozen eggs to his house and asks him the price. The grocery man says, "Seventy cents a dozen." The chairman will say to him, "You are too high with your eggs. Here is a quotation from Baltimore for 67 cents and here is one from Alexandria for 65 cents," and so on. The grocery man says, "Well, if you can buy your eggs at those prices, I had better come down with the price of my actual eggs." There is where the farmer is induced to part with his cotton, on the strength of the quotation.

Now, it will be said that a party does not have to buy this future contract, and when he does buy it he knows that he is at a disadvantage. He knows that the seller has the option to deliver any one of ten grades, and the buyer knows he has no option whatever. Therefore, he takes the whole risk and gets his discount at the time that he buys the contract, that he does not pay as much for the contract as he would if the quality were specified. Having taken his chances, and having gotten his discount at the time he buys it, he deserves no sympathy. That is true. I have no complaint to make for the present between the buyer and the seller. I will state, however, first, that this is not a fair contract even between the buyer and the seller, because it is an impractical proposition, unworkable, unreal, unusable, and therefore is a depreciated contract, as it were.

I notice in the hearings that some of you gentlemen used the word in that connection that the seller has the edge on the buyer. I confess that is a new expression to me, but I take it that it means the seller has the advantage over the buyer, and that is true, absolutely true. In that connection——

The Chairman (interposing). You are speaking now of the seller of the option?

Senator Dial. The seller of the option; yes. In other words, that is a fool contract; it is impractical, it is an unreal proposition, it is mythical, it is gambling, or whatever you want to call it. It is not what ought to be in dealing with actual commodities. There is no occasion for this system to be put upon our people. It is confiscatory; it is revolutionary; it is absolutely wrong in every way; but I will try to be modest about it.

Evidently it was in the minds of the questioners the other day at this hearing, and conceded, according to the questions, to my mind, that the seller of this contract had the edge on the buyer, and therefore it put the price of the contract down; and, of course, the price of the commodity under the contract was lowered. The contract is not what it ought to be between the buyer and the seller, but if we can separate the effects of the future contracts from actual spot cotton, I am not complaining very much; but the harm is done in that lessening the price of that contract lessens the price of spot cotton. Even, as between the buyer and the seller alone, the contract ought to be corrected. It ought not to be allowed to be dealt in under any such latitude as that. If any one else were interested but the buyer and the seller, we ought not to allow a hocus pocus arrangement of that sort to go out into the world and control trade and affect business.

But, Mr. Chairman, I am not here so much to try to protect the buyer and the seller. I am here now to complain of the effect of the quotation of the future contract on the price of spot cotton. It will be said, "What has the grower got to do with the exchange? Let the grower attend to his own business." I agree with that, the grower does not want to have anything to do with the exchange, but inevitably he can not help it. The quotation of every contract affects his spot cotton. If you could hide the buyer and the seller of contracts, and their quotations, just let them trade as much as they pleased, but you can not do it. That quotation goes out to the public, and it fixes the price of spot cotton.

Let me illustrate. I come to you and say, "I hear you are selling wheat on the exchange." You say, "Yes." I say, "I want to make a contract with you for a thousand bushels. Here is my check. What is your price?" You say, "Seventy-five cents a bushel." I say to you, "I think that is very cheap. I thought it was about a dollar a bushel." You say to me, "I want to explain to you that my wheat is one-fourth damaged," or "I am selling three pecks to the bushel." I say, "I did not know that, but I thought there was something wrong because the price is so low."

Here is your contract for cotton, supposed to be middling, but not middling. It is for an indefinite quality, within the ten grades. I say to you, "Let our wheat proposition stand; you and I understand each other; I will take my chances on your damaged wheat, on your three-peck-bushel wheat." I deserve no sympathy, because I know what I am doing. I do that with my eyes open. But what I am complaining about is that when the quotation goes out in the afternoon paper at 75 cents a bushel for wheat, without all the facts being made known, and that fixes the price of the farmer's wheat, who had nothing to do with this transaction, and knew nothing about it, that is what I am complaining about, the effect of the unjust quotation of this spurious article, this depreciated article, fixing the price of the farmer's actual commodity.

That quotation goes out at 75 cents a bushel for wheat, and that fixes the price of the farmer's good, sound four-peck bushel.

Now, gentlemen, that is about as concisely as I can put it, the effect of this quotation. Don't you see? What did that farmer man have to do with it? Nothing in the world, but you can not separate it. I do not believe in one man bothering with other people's business. Let him attend to his own business, but don't have a system like that, which absolutely fixes the price of his commodity.

This proposition is a compound proposition. You are talking of two things which ought to be just as separate as heaven and hell, as it were, or the earth from the water, but they are not. You mix them, and I want to get us separated from them if you can. I hope you gentlemen will excuse me for trying to impress upon you that point. I have no particular ill will toward the exchanges, but just let them have a little circle of their own and buy and sell any way they please. In other words, I have no objection if you want to sell

ribbon thirty inches to the yard, if the buyer understands it; he protects himself in paying less for it; but I do not want thirty inches a yard to fix the price of my ribbon if I have ribbon to sell. So that is where the point comes in. It is misleading; it is unreal; it is impractical; it is misrepresentation; it is a fraud.

Furthermore, gentlemen, we are taught that overproduction decreases the price of a commodity. It does not take any very smart man to see that. Your blackberries or your eggs on the street will demonstrate that. That being true, then, does not overselling have the same effect?

In 1920 we produced in the United States less than 13,000,000 bales of cotton. On the New York and New Orleans exchanges alone that year they sold over 128,000,000 bales of cotton. Of course, a good deal of it was duplicate contracts; but they sold many times more cotton than was in existence or than could be in existence for several years.

Commissioner VAN FLEET. How much did they buy?

Senator DIAL. Actually delivered?

Commissioner VAN FLEET. No.

Senator DIAL. Of course, they bought what was sold, because there could not be a seller unless there is a buyer. I would not admit that if I could help it, but honesty makes me admit it; but he is not a buyer at value when he does not know what he is going to get. He merely buys because he thinks it is dirt cheap and can not go any lower. That is the reason he buys. But they delivered that year less than 350,000 bales of cotton, showing you how impractical the contracts were. The idea of 128,000,000 bales being sold shows you nobody could rely upon the contracts, because they did not deliver but 350,000 bales of cotton, not enough to plug your tooth, compared to what was sold, and if those contracts had been practical contracts they would have demanded delivery of the cotton.

To go back to overselling, here is where another wrong comes in. Let us suppose now that all the mills in the world contracted for all the cotton they needed for twelve months, or had bought the cotton they needed for twelve months. Let us suppose that all the people in the world had bought all the shoes they needed for twelve months. Now, suppose they continued to auction off cotton or auction off shoes every day, as they sell cotton on the exchanges now, just as effectively as if you sold it in every courthouse town in the South, so far as the price is concerned. If you keep on auctioning off cotton or auctioning off shoes, would not the price of cotton or shoes go down, assuming that everybody had already bought all that they wanted for twelve months? Would not the price of the shoes and the price of the cotton that we had on hand come down?

There ought to be some stop to selling. They ought not to be allowed to sell something they have not got, something that is not in existence, and something that will not be in existence, and thereby depress the price of the actual commodity which we have. The same principle applies as if we could grow that much more for the time being; the effect would be the same on the price, and you know that is impractical, unreal, visionary, and wrong. You can not stimulate the consumption of cotton to any very great degree, because there are only about so many spindles in the world, so much labor and so much organization, and so and so. But the supply runs away, because there is no stop to what they can sell, no limit whatever. You go to New York and want to buy a thousand bales of cotton, and you ask "Have you got it?" He will say "No; but wait just a minute and I will have it." They put up a hundred thousand bales and the price goes tumbling. I have no amendment directly on that point, but that ought to be stopped in some way or another. My proposed amendment would help curb that practice a good deal, because a man now will sell with much greater ease, knowing that he has a right to deliver any one of the ten grades under his contract. If he knew that he would be called upon to deliver a specific grade, he would be very careful as to the price that he would fix. He would ask a higher price, and therefore that would bring up the price of all the crop.

You would come to me and say, "I want to buy ten thousand bales of middling cotton, or strict middling, or low middling. What will you sell it to me for?" I would ask you a higher price than I would under the present contract, because I would know I might have trouble in selecting that amount of that particular grade of cotton. If I knew that, then I would not sell so many contracts, and that would help get around that evil to some extent.

Whether the law ought to be amended to say that they should not sell more cotton than it was estimated would be grown that year or not, I do not know. I am perfectly frank to say to you that I do not know what the remedy ought to be to stop that unlimited selling.

Commissioner MURDOCK. I want to ask you a question, but to make it intelligent I have got to lay a premise here, and that makes it long and difficult. I would like to start by saying that I think you are right when you say this is a compound question. I would like to add to that that there are four parties involved in this problem, a buyer and seller of spot cotton, and a buyer and seller of contract cotton; and that the problem of each of those two groups is different.

Senator DIAL. That is true.

Commissioner MURDOCK. If I get this question right in my mind, I have to lay all of these foundations. Any sale tends to depress a market. Any purchase tends to bull a market. A purchase at one minute may be a sale at the next, so that this puts us in an interchangeable position constantly.

Now, you say that if a man down South by the name of Jones approaches a man by the name of Smith, who has cotton to sell, and buys Smith's cotton, he buys on the basis of middling, and for a price, money to be delivered, cotton to be delivered; that in the approach of Smith to Jones to purchase the cotton, one of the guides which is used in this transaction is the quotation of a future price from the New York Cotton Exchange, which in turn is based on middling cotton. Am I correct so far?

Senator DIAL. It is correct to say that they use middling as a basis with sliding option to the seller.

Commissioner MURDOCK. All right. Now, there is a transaction in which there is an actual purchase and sale of real cotton. The future contract is a little bit different from that, and you have got to keep your mind away from your actual cotton transaction if you are going to think clearly about the future transaction. A man in New

York, Jones, contracts with Smith to purchase cotton for future delivery. What he really does is to enter into a contract for the receipt of and for the payment for cotton at a future date. When the actual date of delivery arrives, it is found to be not a day but a month in which it can make delivery, and the cotton to be delivered is found to be under the law and perfectly legal, not one grade of cotton, but ten grades of cotton, any one of ten grades.

Senator DIAL. All ten; yes.

Commissioner MURDOCK. He has a choice from all ten. However, the basis of the sale remains middling, and when he delivers a grade which is less than middling in quality, then the difference is made up to the purchaser by a cash payment, determined by a disinterested factor, namely, the going price in ten markets, as determined by the Secretary of Agriculture.

I put before your mind two absolutely different transactions, one the actual sale of spot cotton between two parties; another one, up in New York, a contract to deliver cotton, the final delivery, and the settlement of the contract by a cash payment making up the difference between a lesser grade of cotton than the middling and the delivered cotton.

Now, this is my question: Anybody could look at that thing as I have outlined it would see at once that it is extremely complicated. What do you say to the proposition that the seller of the future contract in New York must of necessity become a buyer of spot cotton for delivery? What have you got to say to that proposition?

Senator DIAL. He is not a buyer of cotton, because he does not deliver. He does not deliver according——

Commissioner MURDOCK (interposing). But wait. I am taking a case where he has actually delivered cotton and paid the difference.

Senator DIAL. He does become a buyer; that is true.

Commissioner MURDOCK. Now, don't get any further now, because I am getting down to the real question which is in my mind. I am not asking for any purpose except to get my own mind to work on this problem. If then that seller of a thousand-bale contract, who actually makes delivery, has become a buyer of spot cotton, whom does he buy of? He must buy eventually, at some stage of this game, of the man who produced the cotton?

Senator DIAL. Exactly.

Commissioner MURDOCK. What, then, is that producer of cotton? He is a seller of cotton. He has produced it and he sells it. Now, I am thinking wholly at this minute of the man down South who has gone through the enormous job, and usually an unremunerative job, of raising the cotton. He is now, under the transaction I have placed before your mind, the seller of cotton. Here is the question: If there does exist in the futures contract the edge or advantage to the seller, is not that advantage reflected back down through the seller of a futures contract, who has become a buyer—is not that advantage reflected down to the actual seller of actual cotton?

Senator DIAL. The farmer?

Commissioner MURDOCK. Now, wait. Is not that to the advantage of the farmer? That is my question.

Senator DIAL. No.

Commissioner MURDOCK. Are you sure?

Senator DIAL. Yes; Iam sure. I have a memorandum here on that point. I am glad you mentioned it. In the first place, the seller of the contract is merely a fraction of a buyer, you might call him, because—take the figures of 1920: They sold 128,000,000 bales, and they bought less than 350,000 bales. There is where your man would come in.

Commissioner NUGENT. You mean for delivery?

Senator DIAL. For delivery; exactly. That is the point, Senator Nugent. So it is infinitesimal, his buying was so remote, it would not be a drop in the Atlantic Ocean, practically. They buy so little out of the quantity that they sell. As to the farmer getting the benefit, when he sells, I have a memorandum here on that point. When you say the farmer would have to pay the price that was paid on the farm for that specific actual cotton, you say, wouldn't that be fair? My argument is that this contract, so much selling on this contract, puts the price down, and the price will always come down for that reason. You say, "Well, isn't it right and fair to go out and get the price that the farmer actually got for his cotton on that date?" My contention is that, by reason of that contract, the farmer's price is lower than it would have been had it not been for this future contract on top of it. This very contract which your illustration gives of this man selling at New York helped to put the price down, because of the indefiniteness of the contract, and that very transaction affected the price on the farm. It puts the farmer's cotton down to the price that this purchaser pays for it.

The seller of the contract keeps on selling and runs the price down and then buys in the contracts and makes the difference. If they want actual cotton they sell great quantities of contracts and run the price of spot cotton down and then purchase the spot.

Now, you say, "Doesn't the price on the farm go up?" Yes, it goes up, but it never goes as high as it would go if it were not for this unjust contract, this unjust proposition, on top of it. So my complaint is that these sales always reflect against the value of the crop on the farm, and you keep on selling; no matter how much you sell, if it is between the buyer and the seller of the contracts, nobody would be hurt but they alone; but when it comes out it puts the price down on the farm, because the price of the farmer's contract hen is measured by the price of this futures contract.

What did cotton do yesterday? By this morning's paper cotton yesterday went down from 34.63 to 33.85.

The CHAIRMAN. That is futures?

Senator DIAL. That is futures, yes.

The CHAIRMAN. What was spot yesterday?

Senator DIAL. This does not say what spot was, but possibly 75 points down. Day before yesterday, I think it was, about 85 points up. This shows you here, if you will read this statement of New York cotton to-day—take May future contract cotton; it went from 35.20 down to 34.40; that is, 80 points down. If it were not for this wild speculation, it would not fluctuate in any such fashion as that.

Now, gentlemen, as I have told you all before, I do not admit that it is necessary to have exchanges to sell cotton. You have none for wool, iron, steel, coal, tobacco, and many other commodities, but if you are going to have one, you ought to have the law applying to that as it applies to all other contracts in the United States. You

ought not to make an exception whereby the price of cotton can be juggled, and the product of the toil of the people taken away from them in any such fashion.

Now, I suggested some time ago that I believed perhaps the South lost a million dollars a day by reason of this proposition. I realize, gentlemen, that that is very extreme talk. That sounds wild, that sounds nonsensical, that sounds almost radical; but I am in hopes that I do not make that kind of statements. Now, let me show you. One cent a pound on the average crop of cotton we used to raise is $65,000,000. Five cents a pound is a million dollars a day practically.

I have the fluctuations of cotton for twenty years, anywhere from one to thirty cents a pound; often five cents a pound and seven cents a pound and ten cents a pound; and so on. Of course no man can calculate definitely what that loss may be, but my contention is that the price never goes as high as it would go if it were not for the unjust, one-sided future contract on top of the price.

Furthermore, the injury would be not only that the crop sells for less, how much less you can do your own figuring, but sells at less than it would sell for, but when these wild fluctuations come along, mills tie up their goods, pay storage, interest, and occasionally shut down, they turn off the labor, and labor suffers. All of the big users of goods, in fact everybody that wants to buy a table cloth or a sheet, withdraws from the market. Trade is disorganized, demoralized; the tenants down South desert the farms, and the landlord loses the rent; merchants and banks lose money on the people who quit the farms; and a great wrong is that you destroy the courage and the hope of a very large population of the country by reason of this wide and wild fluctuation. You can not calculate in business what harm is done by these fluctuations.

Can you gentlemen tell me any reason why cotton should bring $10 a bale less at three o'clock in the afternoon than it did at ten o'clock in the morning? Can you tell me any reason why it should bring 21½ cents a pound in one month and three months later bring 35 cents a pound? How can you calculate that?

Suppose, Mr. Chairman, that the stock in trade of any individual in the United States were to fluctuate 50 per cent in ninety days, where would he be? Suppose that merchandise were to fluctuate in that way, or your bank stock, or anything else which you had would fluctuate in that way, how could you ever hope to fix any stabilization in trade? It is enough to destroy the hope of a large number of the producers of cotton in the country. Our interest has been slashed around with this kind of foolish, wild, unreasonable, nonsensical fluctuation, until we can not stand it any longer.

Now, about the farms, I have white folks and darkies working for me. They plant cotton. Do they know within any reasonable limit what they are going to get for that cotton? Not a bit more than a jaybird. I furnish them land and money to raise their crops. Can I tell? I can not tell within fifty per cent. The bank lends me money, and can they tell? By no means. It depends upon the psychological feeling of a few speculators.

They will argue to you with a great deal of force and cheek and brass that the exchange is not intended as a spot market. I know that. What is it intended for, then? Why do you let it affect us

people who grow this stuff? Aren't they entitled to first consideration? I know it is intended to hedge. We do not object to the hedging, but we first want to take care of the people who create something. I have no grouch against the exporters or the people who manufacture. I am opposing Congress. I am trying to get help from you gentlemen to bring to bear on Congress. They are so busy they won't stop to study the proposition.

I will show you what the hedging proposition is, briefly. Here is the idea of hedging. A mill gets an order for all of the goods it can make for three months. Assuming it is running a thousand bales a month, it is offered a contract to sell its goods, and it has not the cotton, and it might have to pay a higher price. Therefore it will not contract to sell its goods ahead, but it will do this: *It will contract to sell its goods and eo instanter, or the quantity of contracts of cotton it takes to make those goods, say three thousand bales for the next three months.*[?] Say it has sold its goods on the basis of thirty-cent cotton; it buys its contracts at thirty cents. It is immaterial to the mill whether the cotton goes up or down. What we would like to see is an honest contract, a definite contract, so the mill could sit down and say to the man who sold this contract, to deliver me my cotton, but not knowing the grade of cotton which it would get under the contract, knowing the seller has those ten sliding options as to the grade to be delivered, the mill can not afford to wait and demand delivery; no mill can use ten grades of cotton, but it has to have kindred cotton; it is not necessary to have it all in one grade, but kindred cotton; therefore it can not rely upon the seller delivering the kind of cotton which it can use. Hence, they use this hedging proposition, and the way they work it is: The contract being of no actual kind to them, as a practical thing, they will send to a buyer on the market, when they get ready for this cotton, and say, "Buy me a thousand bales of cotton. Every time you buy a hundred bales wire my broker in New York to close out one contract."

Now, suppose the buyer picks up a thousand bales of cotton at 29 cents; he closes out the contract for that amount. Therefore the mill has bought its cotton $500.00 a hundred bales cheaper than it thought it could. It is that much better off. But it has lost an equal amount on this contract, but it has insured itself and it is even.

Now, wait another month. They say, "Go out, Mr. Buyer and perform the same operation." Cotton has gone to 31 cents a pound. The mill has lost $500 on each hundred bales of cotton then, but it has made that up on each contract, and therefore it is even. Hence it is immaterial to the mill whether cotton goes up or goes down. I am not complaining about the mills doing that. Perhaps it is proper that they should do it, but there might be some insurance company whereby they could get insurance. The question I am complaining about is, who insures for the poor fellow taking it out of the ground? I am not in sympathy with the practice of the mills in concentrating their orders with large dealers. They buy for future delivery so many points on or off future months. That enables the large dealers to use the aggregate of orders to change the price of the future contracts, and thereby the price of spot cotton flops up or down at their pleasure. If you had a contract whereby they could buy cotton for future delivery, knowing what they were contracting for and what they could get, the price would stay stable.

Commissioner MURDOCK. Finally, if the hedging process as you regard it is a perfectly workable, legal scheme for the mill to employ as an insurance, what are the real reasons that the farmer does not employ it?

Senator DIAL. I thank you for asking that question. It has been argued that the object of the ten tenderable grades was to enable the farmer to contract to sell his cotton before he harvested it, or even before he planted it, and then gather his cotton and take it and say, "Here it is, on my contract." That is wholly mockery. I do not think any greater nonsense was ever talked about than that proposition. Not one farmer in a hundred raises a hundred bales of cotton. A large number have to borrow money to plant their cotton. The average, I believe, is a two-horse farm. A great many of them have only a one-horse farm. I have got negroes this year that do not raise but two bales of cotton to the plow. How in the name of common sense can they borrow any money to sell a contract? Not one in a thousand ever sells contracts.

Commissioner MURDOCK. What is the unit of the contract?

Senator DIAL. A hundred bales. Not one in a million ever delivers cotton on a contract. I never heard of but one who tried to do it. He sold two hundred bales and cotton went down, and he had the cotton and was ready to deliver on the contract. His broker said, "Don't send your cotton here; sell your cotton to the cotton mills or to the exporter, and close out your contract"; which, of course, he did. That is just as impractical a proposition as ever was dreamed of. The farmer has to borrow money to make his crop on. Where would he ever make any money to put up a margin to sell a contract? If he were to put it up, like I say, his margin would be gone. Then, do people want to make farmers speculators? That thing to-day has put the South in poverty, buying and selling contracts. It has absolutely confiscated the property of many.

Commissioner MURDOCK. Then you think really that the unit of contract delivery, which is a hundred bales, even if it was——

Senator DIAL (interposing). Even if it were ten bales.

Commissioner MURDOCK (continuing). You think it would be a harmful thing to the Nation if all producers hedged?

Senator DIAL. Absolutely.

Commissioner MURDOCK. Because you figure that the hedger is a speculator?

Senator DIAL. Except in the case of parties who use cotton. In the case of the mill I think there is excuse to hedge, the actual consumer of the cotton, but that does not apply to a man who just wants to buy cotton as a speculation.

The CHAIRMAN. Doctor Walker?

Doctor WALKER. I want to ask this question: The cotton on contract being lower, on account of the number of grades that may be delivered, and not knowing in advance what actually will be delivered, that makes, as I understand it, the trader put a lower value on it?

Senator DIAL. A lower value on the contract.

Doctor WALKER. Than if he knew what he was going to get?

Senator DIAL. That is right.

Doctor WALKER. He does that because both of those parties know just what they are to get?

Senator DIAL. Both parties knew just what they were going to get.

Doctor WALKER. They are able to size up the condition?

Senator DIAL. I have no sympathy for them.

Doctor WALKER. You are not talking about that?

Senator DIAL. No.

Doctor WALKER. And the price is lower for the middling contract, because each, knowing what it is worth, will fix his price accordingly, and it will be less than middling?

Senator DIAL. Exactly.

Doctor WALKER. And then you contrasted that with the man who goes to the producer in the country and buys cotton and says, "Here, you are too high."

Senator DIAL. Yes.

Doctor WALKER. And the man looks at the quotation and says, "Yes; I am too high"; and he gives it to him at a lower price. Does that man, who, I take it, is a cotton buyer or merchant—is he familiar with the cotton?

Senator DIAL. Yes.

Doctor WALKER. What does he get out of it? Does he make an extra amount of money over that which he pays?

Senator DIAL. Well, that man is numerous. He might be the buyer for a cotton mill.

Doctor WALKER. But does he sell it again to the mill? Supposing he is a merchant, does he sell again to a cotton mill and get that surplus that the producer did not know enough to get?

Senator DIAL. Well, I do not know that he does. The purchaser from the actual grower perhaps is the direct agent of the mill.

Doctor WALKER. Suppose he is not. Suppose he represents one of the big houses.

Senator DIAL. Then he gets all he can out of it.

Doctor WALKER. Then he gets more?

Senator DIAL. He gets more. He gets all he can.

Doctor WALKER. He gets more, and we will suppose he is a representative of some big house, or anybody in the trade. He gets more for it, because the producer is ignorant of this complicated business, but he is skillful, and he gets more, and he can turn around and sell it to the mill or to an exporting house. If he gets more, are they to get more? Are they all in agreement and understanding with each other to get more, or are they competing to get for what they can pay for it and sell it at a profit?

Senator DIAL. On that I could not say. I do not want to accuse anybody of combination. I imagine that each one would try to do the very best he could. We all try to make the most money we can, but the exchange gives them the measure, the quotation of future contracts, to go out and get it as cheap as they can. I have no desire to try to keep the other fellow from making what he can properly and legitimately, but I say that quotations of future contracts are false yardsticks, are false measures.

Doctor WALKER. This man knows that it is three pecks to the bushel?

Senator DIAL. The man who is buying knows it; the seller does not know it.

Doctor WALKER. I am just wondering how that works out. Does this skillful buyer, as against the producer, who does not know anything about the exchange, get something out of it?

Senator DIAL. No; I do not think it is the buyer. I think it is the quotation that takes it away from the seller for less than it ought to bring.

Doctor WALKER. This was my thought. You are this skillful buyer in this trade and get this cotton at a depressed price, and he sells it again at a depressed price to somebody else, or else he pockets the difference. Now, I wanted your thought on that.

Senator DIAL. Well, I think that my main complaint is that the quotation, being a false quotation, and misleading quotation, puts the price down and it always gets it away from the farmer for less than it would if it were a fair and genuine quotation, a 36-inch yard stick, you might call it. Of course, it is too long a story to go into, as to how the big buyers manipulate the market; but they can manipulate the market, in that they can go and sell contracts and thus press the market down—not that mere contract, but they take the contract and go to the buyer and use that to get him to part with his actual cotton.

For instance, the other day I saw where one of them sold contracts for 1,000,000 bales. That put the price down. Then the price of spot cotton went down 100 points. The buyer then, of actual cotton, the exporters and the big dealers, would take this quotation that they have made, that they ran down that afternoon, and go out and buy up the actual cotton. I do not say that they misrepresented the facts on the quotation, but the quotation itself enables them, you, or me, or anybody, to go to the farmer and say, "You are too high with your cotton, because the quotation is so and so."

Doctor WALKER. I understand your argument, how it puts the contracts down in the New York Exchange. I understand how these buyers can go to one of these two-horse or two-mule farms and buy cheaper. He can not do it from you, but from these people.

Senator DIAL. Yes, he can buy it from me.

Doctor WALKER. Suppose he does. He buys it cheap?

Senator DIAL. Yes.

Doctor WALKER. Does he sell it that cheap to the mill or the exporter, or where does that depression stop? That is what I am trying to find out.

Senator DIAL. That depression stops right down with the seller, with the producer. He takes it out and he does like any other merchant, he makes all he can out of it.

Doctor WALKER. Then there is no competition to bring that down, to equalize that advantage and put it down, so that he does not get it even if he bought it too low, he has to transmit that advantage?

Senator DIAL. No. If he has to sell to exporters at a certain price. Suppose that you and I were exporters, and that we had an offer for a very large quantity of actual cotton, and suppose we had enough money that we could go out on the exchange and sell contracts, and we would sell enough contracts to put the price down, and then we would go out and buy the cotton on that quotation, and we would make the difference.

Theodore Price said the other day that before this war there were only two rich dealers on the New York Cotton Exchange, and he said there were at least six who can now buy 100,000 bales of cotton each and pay for it with their own individual checks without consulting the banks. I am not opposed to wealth. Any man who does not try to better his condition and the condition of his family is not worthy of a family; but I am opposed to a large amount of uninvested wealth being used simply to speculate upon the toil of people who can not help themselves; then to sit down and allow Congress to have one-sided law, an unreal proposition, and unusual and revolutionary proposition, to remain upon the statute books, to aid people in taking away the labor of the people who can not help themselves, is inexcusable.

Richard Edmonds said in this week's paper that no honest man could oppose my amendment on this subject. I do not go that far. I say that no man who is well posted can oppose it. I would be glad if you gentlemen would read his editorial, if you care to do so. It is very strong upon that point. What I want to do is not to pass any radical law, any extreme law, any unusual law; but I want to make a contract that is broad enough to be tradeable, elastic enough to encourage trade, yet definite enough to be practicable and workable. I think my proposition of three classes, as heretofore explained, to be the most real proposition that I can suggest at the present time—the most practicable one for the present. I do not think that is as strong as it ought to be, and I believe a still better solution to be to repeal section 5 of the law and let section 10 stand. That is, simply to specify the identical grade which you are contracting for. I believe that would be a better solution of the whole proposition, and I hope you gentlemen will give the matter careful consideration, and I trust you will make your findings at as early a date as possible, because I hope Congress will do something at this session.

Doctor STEVENS. We have been informed that spot cotton is bought and sold based on the seller delivering any grades that he chooses, and the buyer accepting the cotton and paying for it at market differences, on and off, conditioned in exactly the same way that the buyer would pay in the case of a future contract; in other words, cotton is bought and sold, on and off differences, and the seller has the option of delivering to the buyer whatever he sees fit, and the buyer agrees to accept that cotton and to pay for it at market *conditions* [differences for], on and off grade. What is the difference between that kind of a seller's option contract and the seller's option contract for future delivery? Is the price of spot cotton to apply on and off middling which prevails in the market an unfair contract, and does that depress the price of spot cotton as well as the option [in the] future contract?

Senator DIAL. Well, it is true that some contracts of actual cotton are made that way, but it is misleading to say that cotton is sold that way, to draw an impression generally before you gentlemen. As a matter of fact, just like a great many other things, you tell part of the truth and not the whole truth. *Often* [Even?] in that proposition that is not *only* [nearly?] as bad as the contract proposition, because under the contract proposition you do not know what you are going to get. The way it is is that the man has the actual cotton and the buyer samples the whole wagon load of cotton, the whole quantity, and they adjust it on the spot with the actual commodity. Take, for instance, 25 bales of cotton on a platform, and separating it grade by grade, making a bid, that would be one way to get at it. The man would say, "I will pay you one price for one grade and I will

pay you another price for another grade"; and maybe five different prices for one lot of cotton. There is not much difference between that and the basis price, but, as a matter of fact, we are getting away from that kind of trading as rapidly as we can. One of the reasons is the injustice in that very system, because the farmers have been robbed tremendously by the difference in the price on the different grades, so much so until there was so much complaint upon the part of the farmers that we got Congress to pass laws authorizing the appointment of graders to get around that very trouble, graders in the Agricultural Department. We have them all over the South, and, furthermore, we have formed cooperative marketing associations to get away from that evil also, in that the cooperative marketing associations will have all the cotton the farmer has grown; they will segregate the cotton, and when the mill or exporters want a certain grade of cotton it will go there and buy it on no basis but that particular grade, which is exactly what he wants. Hence, the cooperative marketing associations are of tremendous benefit to the buyer, because the buyer can get exactly what he wants, and it helps the grower in lumping his cotton, in separating in certain lumps the classes, and thereby the grower will get a higher price, and the purchaser is willing to give a higher price because he gets exactly what he wants.

Under the system which you propose, the buyer often only gets maybe half of the kind of cotton he needs out of one particular lot, and then he will take the other grades and sell it to some one else to get rid of it the best he can. The mill that he buys for, or the exporter, only wants certain grades, but he will have to take the other in order to get the grades he does want. Hence he buys and pays a less price for the other grade he does not want. I am trying to do in the future law exactly what the cooperative market is doing in the spot trade; I am trying to specify the particular grade, and if we could do that we would get a higher price.

Doctor STEVENS. Then I understand your position to be that selling cotton on basis—spot cotton, not futures—the differences on and off middling to apply—is unfair in the same way that the future contract basis is unfair?

Senator DIAL. Well, it is unfair in the same manner, but not to the same degree; because in the future contracts you are allowed to accumulate great quantities of cotton that you have not got and thereby keep on depressing the price, and in actual cotton you have got actual cotton. It is in the same manner but not to the same degree, and that is one of the strongest complaints in the South. You hear the complaint that the farmer has been deprived of a part of the value of his crop in not having it properly graded, so much so that we appropriated money to have Government graders, and we call on them.

Doctor STEVENS. Do spinners buy cotton solely with reference to grades, or does the staple affect their proposition?

Senator DIAL. Oh, the staple does it.

Doctor STEVENS. Then could a spinner, even though he knew the exact grade of cotton that he was going to get on that contract, take deliveries on the future contract, not knowing what he was going to get?

Senator DIAL. The staple is provided under the law. It has to be above a certain staple.

Doctor STEVENS. He can tell pretty well by that. That depends on different seasons of the year. There is better staple some years than others. Take a mill that wanted a ⅞-inch staple, could it spin $1\frac{1}{16}$-inch cotton?

Senator DIAL. No.

Doctor STEVENS. Can a mill which spins $1\frac{1}{16}$-inch cotton spin 1-inch cotton?

Senator DIAL. It might do that. I am not an expert mill man.

Doctor STEVENS. What I am trying to get at, Senator, is whether or not, even though you have specific grades, it would be possible for a spinner to take delivery and as a matter of fact be sure, or even reasonably sure that he could get a staple that he could actually use in his mill.

Senator DIAL. For the most mills, yes. He would know in reason that he could handle it. He would know the value of it.

Doctor STEVENS. Isn't it true that some mills which spin a hard staple cotton can not spin a soft staple cotton?

Senator DIAL. I have heard that is true. I am not an expert mill man.

Doctor STEVENS. You think in any considerable portion of cases that a spinner taking delivery of a specific grade of cotton on a future contract could actually spin the cotton?

Senator DIAL. Oh, yes. It ought to be very usable, but whether it was or not, whether he would take it or not, the price would not be down so low if the man had to specify what he is selling.

Doctor STEVENS. On your proposition of the effect on spot prices, do I understand you to take the position that, if the future price drops from, say, 35 cents to 34.50, or 50 points, that the spot price would also come down the same day?

Senator DIAL. Well, practically.

Doctor STEVENS. In other words, every time the future goes down the spot goes down?

Senator DIAL. Not every time, but generally.

Doctor STEVENS. In other words, the future price always leads and the spot follows?

Senator DIAL. I can not say always, but I think almost always—not absolutely always.

Doctor STEVENS. Then you do not know of any cases where the spots have advanced, and the futures have also advanced subsequently?

Senator DIAL. Oh, yes. I said nearly always.

Doctor STEVENS. If spot goes up future also goes up?

Senator DIAL. But the future is the leader.

Doctor STEVENS. Always?

Senator DIAL I can not say always.

Doctor STEVENS. Did you ever know of a day when the spot prices at New York or New Orleans advanced 50 points, and the futures declined 10, 15, or 25 points?

Senator DIAL. I do not know about that. In 1920, in July, the spot cotton in New York was 43.75, I believe, and the future contract was about 36.50. It did not go up with it. Occasionally, they

do not follow, but to all intents and purposes, and practically the spot cotton follows the future contract. The future contract is the guide nearly all the time, and I venture to say yesterday in New York cotton went down, and the day before that it went up—futures went up and spot went up.

Doctor STEVENS. But how would you determine which goes up first?

Senator DIAL. Let us get a practical case. Down home some time ago I told my bookkeeper to go to the warehouse and sell my cotton. He went down and came back in a few minutes, and he said, "They would not buy because the exchange has not opened, and they would not bid on it." They will not make a bid until the exchange price comes out, as a rule.

Doctor STEVENS. That is perfectly true, but suppose that the exchange price came in at exactly the same price as the preceding day's close; doesn't it ever occur that the spot price is higher than the spot price prevailing at the close of the preceding day?

Senator DIAL. You are speaking about an isolated case. That might be Some mill might be about to run out of cotton and it has got to have it, and it will pay more, but I am talking as a general rule.

Doctor STEVENS. The future market leads 98 times out of a hundred, so whenever the futures go up spot prices go up?

Senator DIAL. I think so.

Doctor STEVENS. In other words, that the future price helps to raise the spot price and depress it?

Senator DIAL. It does, but plenty of times there are no transactions under the quotation. They tell me these quotations are done for insurance. There is no cotton sold and no cotton bid on for days perhaps. But I say it does not make any difference how high it goes, it never goes as high as it would go if it were not for the unjust future contract, because a man knows he can sell future contracts and put it down if he wants to.

Doctor STEVENS. Do you see any use for the maintenance of a future market at all, except for hedging purposes?

Senator DIAL. If I were to say I did not, they would come right back at me and say, "Don't you remember in 1914, when cotton went from 14 to 7 cents?" They would stop right there and not argue any more. I remember that well, but that was not because of the closing of the future market. The reason for that was because the world exchange got all demoralized and, furthermore, we had no ships to carry cotton. So, that is an abnormal proposition and a fool proposition, and a hard-headed man won't argue any further.

I think if you had a definite contract, a contract like any other contract, like you buy your clothes from your tailor, or you buy your automobile from the manufacturer, or any other definite contract, a future contract might serve a very good purpose. We export a whole lot of our cotton, and I can not see any reason why a man in Manchester should not be able to buy his requirements on the exchange (but I would much prefer him to come South and buy the actual cotton), to buy his requirements and have them delivered to him. It might help.

Doctor STEVENS. But, Senator Dial, does not the Manchester speculator and the importer on the other side, as a matter of fact, contract for future delivery in effect—not under the rules of the exchange—but doesn't he contract for a certain number of bales of cotton to be shipped to him for forward delivery of a specific grade at the present time?

Senator DIAL. I presume they do. They do not do that through the exchange, however. They can not do it because they do not know what they are going to get.

Doctor STEVENS. But they make a contract for the specific grade *of* [or] staple. If you had your present contract to provide only for a specific grade and staple, then you are simply duplicating a type of contract which already exists, are you not?

Senator DIAL. No; there is no such a contract as that in the exchange except under section 10 and on the New York Exchange not a contract was ever sold under it. They buy it from the dealers and not from the exchange, because the exchange would not sell that way.

Doctor STEVENS. But if you put in your specific contract you would make the exchange sell that way?

Senator DIAL. I would make them sell that way or not at all.

Doctor STEVENS. That is, you would simply be requiring delivery through the exchange of cotton on contract, which would be practically identical with the contracts now being made every day by dealers?

Senator DIAL. No; you can not have a contract that way on the exchange.

Doctor STEVENS. I know, but if you adopted your proposed system——

Senator DIAL (interposing). That is what I want to do.

Doctor STEVENS. You would have a contract which would be deliverable through the exchange?

Senator DIAL. Yes.

Doctor STEVENS. And would not that contract in effect provide that delivery through the exchange of cotton would be in a form just exactly the same as contracts being made now?

Senator DIAL. That is what I want.

Doctor STEVENS. That is what I want to get at.

Senator DIAL. I want to make them do it that way.

Doctor STEVENS. What would be the advantage of doing that, Senator?

Senator DIAL. The advantage would be higher prices. No man to-day will sell you a contract for a specific grade of cotton, for as low a price as you can buy a cotton on the exchange for, and yet the price on the exchange is what makes the price of spot cotton.

Doctor STEVENS. How many transactions per day do you think there might be on that basis?

Senator DIAL. That is speculative, and I do not know.

Doctor STEVENS. Suppose on a particular day there were not any transactions at all.

Senator DIAL. That would be possible.

Doctor STEVENS. Then that day the future price would have no effect on the spots at all?

Senator DIAL. It would be the same as the day before.

Doctor STEVENS. And the people would work on the basis of the price of the preceding day?

Senator DIAL. I presume so. Look at Savannah. There are plenty of days when there is not a single bale sold, and at Houston and these other places.

I want to say to you, I thank you very much indeed. I introduced this resolution two or three years ago, and it is one of the biggest propositions to-day in the United States. I feel that we have been deprived since the Civil War of a large proportion of the value of every pound of cotton that has been grown. I do not say it viciously, but I believe that unfortunately the people of the South, who ought to know, do not know; and I believe that very few people in the United States realize the great trouble is that they can not see the wrong because they do not know the law. They only know it in a general way. They can not know the wrong unless they know the law. If they would sit down and study the law and see what it is, I venture to say not one man in ninety-nine would approve this law. I hope that you gentlemen will give it most careful consideration. It is the most important proposition in life to-day for the South and our people down home are deserting their homes and farms by the thousands and hundreds of thousands. I believe the day of raising cotton in a slipshod way is rapidly passing. There is going to be a greater scarcity of cotton next summer than in your or my life time and the mills will have to shut down and the labor will be thrown out of employment, and there will be general suffering. Heretofore nearly anybody could raise cotton, anybody could rent your land and buy your mule and raise a few bales of cotton, and make ends meet by catching a few fish and picking a few blackberries, but that day has gone, and hereafter nobody is going to furnish money on any such great uncertainty as that, and hence this is going to get to be a more scientific matter, and we are going to have to put more money into it, and it is perhaps one of the greatest problems in this country, the cotton manufacturing business and the world is beginning to wake up and to realize the facts.

The other day Mr. Gary, the Steel Trust man, gave Mr. Wannamaker $25,000 for three years to try to eradicate the boll weevil. That is very good, and I am much obliged for that, but I can not believe that they are doing that for our benefit alone. They are far-seeing men, and they are doing that to try to save the actual industry. It makes me sick and tired and mad to talk about helping the farmer by giving him a little poison to kill the boll weevil. That is very good so far as it goes, to correct this is his due. I am not asking any favor for him, but this is what is due him as a matter of right, as a matter of morals and reason and common sense and justice. We can not do any less than to put him on the plane of anybody else in the world. Who demands any such system as this to sell our cotton? How was the farmer consulted? He did not appear here the other day. Why do these people want this thing to go on? It is for their benefit. Make a fair, honest and equal law, and let the mills, the exporter and the exchanges adapt themselves accordingly.

(Whereupon at 12 o'clock M. the hearing was concluded.)

Range of cotton prices for 20 years

(Based on official quotations for middling in New York)

Calendar year	Month	Highest price	Month	Lowest price	Range
		Cents		*Cents*	*Cents*
1903	December	13.70	January	8.85	4.85
1904	March	16.65	December	6.85	9.80
1905	December	12.60	January	7.00	5.60
1906	January	12.25	September	9.60	2.65
1907	September	13.55	November	10.60	2.95
1908	January	12.25	October	9.00	3.25
1909	December	16.15	January	9.25	6.90
1910	August	19.75	January	13.85	5.90
1911	May	16.15	December	9.20	6.95
1912	July	13.40	January	9.35	4.05
1913	October	14.50	June	11.70	2.80
1914	May	14.50	December	7.25	7.25
1915	December	12.75	January	7.90	4.85
1916	November	20.90	February	11.20	9.70
1917	December	31.85	February	14.30	17.55
1918	September	38.20	May	25.70	12.50
1919	December	40.25	February	25.00	15.25
1920	July	43.75	December	14.50	29.25
1921	September	21.55	June	10.85	10.70
1922	December	26.80	January	16.45	10.35
	Average	20,58		11.92	8.66

WASHINGTON, D. C., *January 25, 1924*.

Commissioner THOMPSON. This is a continuation of a hearing under Senate Resolution 262, being a resolution submitted by Senator Dial and requesting the Federal Trade Commission to make an investigation of the cotton industry in the United States, and also Senate Resolution 429, introduced by Senator Norris, and having to do with an investigation of the cotton industry by the Federal Trade Commission.

Commissioner MURDOCK. There are two markets for cotton, that is, to my mind. One is the future market and one is the spot market. They are two different kinds of marketing and they meet at but one time, which I will refer to. When the future market in grades appeared in London three or four years ago the difference between a future market and spot was so apparent that the Government put the future market and the spot in different buildings in different parts of London and would not let them occupy space under the same roof. In the future market many more trades are made than are made in the spot market. Under the present law in the future market the sellers have an advantage over the buyer in delivery. In my mind that is important, because there is a time when the future and spot market in the United States come together. When they come together the day of delivery and the closing of the bargain has arrived.

It is well to keep in mind that thousands and thousands of trades never arrive at that day of delivery. If you are a buyer and I am a seller and we meet in a trade, if that trade is equitable, we must meet in a fair deal. We are face to face and make our bargain and you have no advantage—I can sell or not sell, just as I wish. Now, in

the future market, the buyer and seller meet and they trade; one buys and the other sells. The great majority of their transactions never get into the spot market, so that, one trade cancels the other and there you would say, or I would say, that probably the seller's option did not injure the equity of this transaction very much, but in the course of time a portion of the future deals reaches a day of actual delivery, and then I think, as nearly as I can figure it out, that the feature of the existing legislation which gives the seller an edge—an advantage—in delivery does bear upon the price of spot cotton. Now, I want to go over this. Before the future seller has finally arrived at a spot market, that is, the day of delivery, he has come in contact with real cotton. On that day he is under the necessity of delivering the cotton and in that situation this advantage, which the law gives him, does affect these spot markets, in my opinion. It is an intricate thing and I am going to ask you about it. You say in a former hearing here, Why the seller's option was put into the law, because who is the seller of the cotton? And I say the man who grows the cotton and that it is to his advantage who grows the crop. When we had an argument here with the men from the New York Exchange, I asked that question and finally I got one man to say, Why certainly the man who sells futures has to buy his cotton somewhere, doesn't he? Yes; and he said the advantage he has is on the future market and is reflected as an advantage to the man who grows the cotton.

Since he made the statement I have been thinking out where his statement was in error and I am convinced and if you can clear me up, it will be an advantage to me. The truth as I see it is that this advantage to the seller in the law goes in a thousand instances to the seller of futures and only in one instance possibly does it go to the advantage of the seller in the spot market, so that this advantage to the seller in the future market is only in one time out of 1,000 possibly reflected back to the man who actually grows the cotton as affected by the day of delivery. Therefore, I can't see that this advantage to the seller given in the statute, does reflect itself back to the man who sells it, the seller of the spot cotton. Now, I would like to ask you if you have another view of that matter which I have just stated. I am going off the commission and I watched the first cotton futures act go through and I don't believe it went far enough. It is not necessary for me to say to you that I don't live in a cotton country, but I don't think the grower of cotton gets a square deal and I do want to know if there is anything in legislation that will get him more. Do I get the idea to you?

Senator Smith. In a nut shell it is that the seller has the option of delivering any one or some of all these different grades.

Commissioner Thompson. That is the only place he could have an advantage, that is what you mean?

Senator Smith. Yes, sir. The seller, when he comes to deliver, can deliver any or all of these grades. That is to his advantage. If I substantiate my tests, which I believe I have approximately substantiated that all of them are of identical value, then where is his advantage?

Commissioner Murdock. I am talking about the law.

Senator Smith. That is what I am getting at right now. I amended the law and eliminated grades that were doubtful as to equal value

and I am protesting against the arbitrary distinguishing of grades which is not revealed in the tests I have made and the grower should be protected against an arbitrary distinguishing in so-called grades when the ten now admissible on contracts will make the identical yarn and the identical cloth.

Commissioner Thompson. Under the existing differences where there is an artificial distinction by grade in the law on the basis of which there are transactions which are not reflected.

Senator Smith. Only in so far as they recognize these grades on contracts.

Commissioner Gaskill. In drawing the futures act, then, no certain grade upon any specific contract is made possible in order that there might be a latitude to the seller?

Senator Smith. We restricted them to the standard grade and we found that the very thing Mr. Murdock mentioned that the seller might tender something of less value and therefore have an effect upon the market. You approximate in my opinion the solution of the seller's advantage I made. You will see it as clear as I do: If you own an article and decide to sell it I don't think you can make any law in a democratic form of government to keep you from selling it. There is the trouble—unlimited short selling. A man sells 100,000 bales of cotton and not own a bale. That is where the seller has the advantage.

Commissioner Murdock. A man can contract to sell a thing at a future date under the law. He is dealing ordinarily with a man who contracts to buy something at a future date in a great majority of the cases of that kind. There is a transaction which they play. One cancels, there comes a day to enforce the transaction when there is a delivery.

Senator Smith. Then the seller has no advantage under the present contract. The fluctuations in the market, you forget, are due to the speculative contracts that do not contemplate any delivery. No man has ever complained that upon the specific fulfillment of a contract on an exchange he did not get what he wanted. I have not heard of any. There is not one-tenth of 1 per cent of the contracts that are ever filled; they are hedges; you know what they are. Under the terms of the bill that I *have* [had] the honor to initiate in the Senate, I made it unlawful for them to fix any differences. You can't fix any difference in the price. You remember, under the old practice of the exchange, they would deliver you really a valueless grade and fix the price. That was eliminated, so that the seller to-day has no advantage over the buyer except this unlimited selling. I am rather of the opinion that if we could frame a law that made it unlawful for a man to sell any cotton for future delivery who did not own the cotton or who did not have a bona fide option on the cotton, or the land in process of producing the cotton, then buyer and seller would be together right now; but suppose under the present law, October cotton is now about 28 cents; suppose I was a producer and desired to take advantage of that price, believing that when October comes there would be a fairly profitable price to produce my cotton and take advantage of the present price. But suppose I want to [take] advantage of that now. I am a producer. I want to make 300 or 400 bales of cotton. I want to sell 100 bales of my cotton basis middling on the exchange with future market

off and spot market on. Could I specify to one of those men what grade I am going to make?

Commissioner GASKILL. If you introduced into your marketing method a latitude or looseness for the benefit of the producer, that same latitude operates to the seller. Whatever there is there that works to the advantage of that producer in protecting him in any future sale against his growing crop must necessarily reflect in the operation.

Senator SMITH. What I am stating is this: He sells basis middling; he has a market for all of his cotton; whatever difference below middling is not reflected by the bona fide sale of that grade in any market. When the mill man goes and buys basis middling and he is going to convert it into yarn, he will get basis 1–A and might contend he is getting anywhere from low middling to middling 5. The vast majority of sales made on the exchange are not sales of cotton, but the sale of contracts. You have a buyer to every contract. If we wanted to remedy this situation we just restrict the sale of future contracts to the owner of the cotton.

Commissioner GASKILL. I think you have inherently in the situation something to the advantage of a seller, which is seized upon by a man not selling the cotton, but by a seller of contracts, and the only way to remedy that is to cut that error out of the marketing process so that there will be no advantage to any seller, but to the producer.

Senator SMITH. I have been thinking this over so long. So far as any advantage in delivery is concerned, that has absolutely nothing to do with this. The mills may shut down and I will have spot cotton on my hands. Where would I dispose of it? I have got to pay insurance on it and I have got to carry it, and the buyer does not complain that there is any difference and the seller does not complain that there is any difference. It is simply because the seller knows if there was a runaway bull market cotton will fly up and he can dispose of it. On a market where a man don't want to buy for fear that he is to deliver, he don't want to pay insurance and storage. He says, I will step from under and let it slide. The other way the buyer says that, but it is just a system of consignment of the stuff, whereas if you want to stabilize things by law, restrict the sales to those that own it and you will stop it.

Commissioner GASKILL. If there is no latitude to the seller in the provision which authorizes the delivery of another techincal grade, what is the reason for the provision of the law which authorizes the alternative in delivery?

Senator SMITH. If you will inquire of New York and ask what were the grades of certification, you will find as many *rates* [ranges] as there are grades. Now under this contract the notices are stopped rapidly and every notice is stopped, even at the current price. I was hoping and believe that I will work out where we get the trade to agree to restrict these grades to the actual grade. That don't affect the mill man or seller. I think we have an arbitrary difference. Where the fellow stand around and says this is so and so.

Commissioner MURDOCK. There is just one point that worries me; the producer of cotton could go into the future market as a business transaction.

Senator SMITH. Yes, sir.

Commissioner MURDOCK. But it is a fact that a great multitude go out.

Senator SMITH. All I would have to do if I made a contract for October would be to tell the bank to take care of my margins because when October comes I am going to deliver that cotton.

Suppose I think 20 cents is enough for my cotton. It may go to 40 cents, but I have made a contract for 20. Of course, if I am an honest man, I will deliver at 20 cents. I have sold my cotton to the mills for fall delivery. Sometimes cotton would be up and sometimes down, but I am providing I was not speculating. I said I would deliver at so much a pound and when the time comes I will deliver. If a Kansas farmer sells wheat in the fall, there of course he expects to deliver and I don't see how he is violating his contract and he could force the exchange to take it. Suppose he sold at $1.25 and it went down to 75 cents. Suppose he sold it to a mill at $1.25 and suppose it had gone to 50 cents.

Commissioner MURDOCK. He will make money.

Doctor WALKER. Explain something for me, please. In these different grades [where] there is no real difference in the spinning; I think it would be desirable in that connection if you would state why [it was contemplated] according to the law, [and why] there was such a wide difference obtaining in the market.

Senator SMITH. It was purely a method, an arbitrary difference that did not exist intrinsically. I think that if you will just make inquiry from any reputable mill man, they will tell you there is practically no difference in the same length of staple. You will find that they are very often particular about their grade as to the length of the staple. They have, as I understand, but I don't know, they have had some difficulty in the *selling* [setting] of the cards and the different machines—a loom that is spinning a one-eighth staple—you take a staple three-fourths you have a tremendous waste in the cotton that drops out and is lost and very often it is too long, the stock is not adapted to it. I heard one man say that 50 pounds of Egyptian put his cards out of business. The first thing that led me to introduce that amendment for an appropriation of $50,000—it is sufficient to test these grades—what led me to that was this: I have been growing cotton all my life. I live on my farm yet. I just gather up all the hands and pick it to keep the rain from falling on it. If it rains one time on it, it will knock it down about $2.50. After a half dozen rains you might just as well plow it under. Then I thought if I made a row, or plow line, and threw it in the middle, it is just as good as when white. It would be discolored some, but as a better illustration, you can take a new white handkerchief, it has a beautiful color, but throw it down and it is dirty, but wash it and it is as white as ever. The value of cotton in its use has not been effected by a rain or two.

Doctor WALKER. The manufacturer and the spinner differ [from you] in the idea *that there is an* [as to] intrinsic value. Before you can legislate on all cases——

Senator SMITH. That is exactly true, and that is why I don't want my process of education gummed up by the law saying that there is such a difference in grouping these grades.

Doctor WALKER. You say that the grade[ing] is wrong? If they had the information they would not make these differences, law or no law?

Senator SMITH. Yes, sir.

Doctor STEVENS. Did it cost the spinner much to clean?

Senator SMITH. My information is that it is not a question of cleaning. In low middling you will find a slight discoloration, with an accretion of foreign matter. You will find middling which has the tension and shade with an appreciable amount of foreign matter. When it comes to that, it affects the cleaning. That is the test we made. We took the different samples.

Doctor STEVENS. Between low middling and—would it cost more to clean it?

Senator SMITH. I don't think it would be appreciable. That would be reflected in the percentage of waste. The amount of waste indicates the amount of loss in cleaning the cotton.

Doctor STEVENS. Is the percentage of waste identical?

Senator SMITH. Identical; yes, sir. I believe about 2 per cent in favor of good middling. I am speaking from memory. It was the most interesting experiment I ever saw. The result is certainly startling. There was quite an appreciable difference between good ordinary, which covers a multitude of sins. I was amazed at the per cent of waste between good middling, low middling, and white.

Commissioner THOMPSON. Are you through?

Senator SMITH. I have spent a lifetime in the business and am in earnest in getting at the truth.

Commissioner MURDOCK. We may have covered this. We have asked everything else but this; that is, the southern warehouse delivery on future contracts.

Senator SMITH. I have not given that sufficient thought. That has been mooted for years. Why not have points of delivery throughout the country? I have not given it sufficient thought. It reaches back so far to the point of selling. If it was an exchange it would be different. I have not studied that enough to have an opinion.

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